Washington State

Retail Liquor Sales Task Force

Final Report

December 2000

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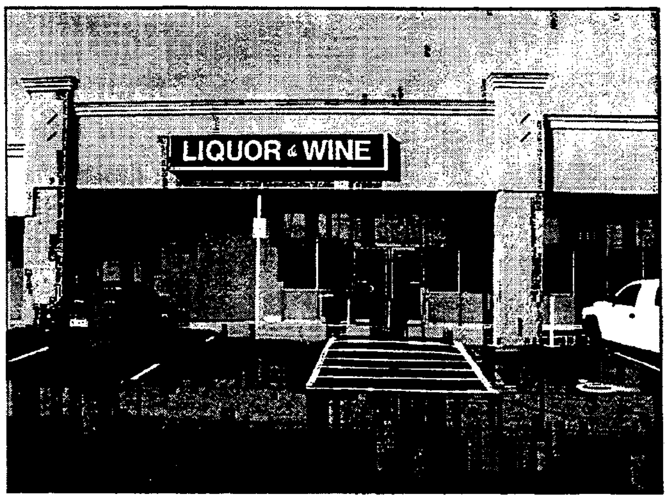

The mission of the Liquor Control Board is to serve the public by preventing misuse of alcohol and tobacco through education, enforcement, and controlled distribution.

December 2000

Prepared by *Roundtable Associates*
Seattle Washington

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December 6, 2000

The Honorable Gary Locke, Governor

Dear Governor Locke:

Washington along with seventeen other states exercise some form of direct control over the sale of alcohol. The Washington Liquor Control Board has as its mission to serve the public by preventing misuse of alcohol through education, enforcement and controlled distribution. In April of this year, you asked this Task Force to assess the retail side of this controlled distribution.

Over the past eight months, we have examined the operations and performance of the Washington State Liquor Control Board's Product and Retail Division, evaluated the appropriateness of the state's monopoly over liquor sales and explored alternatives to the current system.

We reviewed policies, practices and processes of the Washington State Liquor Control Board. We sought comments from the public on the their views concerning the Retail Sale of Liquor in the State of Washington, the major issues that the Task Force should address and what they would change regarding the retail sale of liquor in Washington. We reviewed the liquor control policies and practices of both open and control states, heard from a panel of experts on health and safety issues, and received a national perspective of liquor control policies from James Sgeuo, Executive Director of the National Alcohol Beverage Control Association.

Through our research, we found there is little public demand for major changes to the present structure. While the Task Force was divided on the extent to which contract agency vendors should be involved in the retail sales of spirits, we reached consensus on a number of significant improvements that can be made to the current system. Recommendations concerning these improvements are included in the enclosed report.

The use of alcohol affects the lives of all in the state of Washington. The state's charge to prevent its misuse needs to be carried out efficiently and effectively. One clear message is that the manner in which change is implemented determines the success of any change. We believe that the recommendations of this Task Force can result in improvements in the current system. We offer our continued support to assist you with the timely implementation of any changes recommended in the sale of liquor by the Liquor Control Board.

Sincerely,

Bernie Dochnahl, Chair
Governor's Retail Liquor Sales Task Force

enclosure

Acknowledgments

We wish to thank all those citizens who took the time and made the effort to inform us of their views. Their participation in the public input process has made an important contribution to our decision-making on the critical issues of liquor control policy for our state.

The members of the Task Force are grateful to the staff of the Liquor Control Board, the Office of Financial Management and the Department of Revenue who shared their knowledge and experience during this process. Their cooperation and expertise was invaluable in moving the task force forward. We would also like to acknowledge the staff of DSHS Division of Alcohol and Substance Abuse and Department of Health for their assistance on public health and safety issues.

We owe special words of appreciation to those from other states who shared their knowledge and insights with the task force—to Jim Sgeuo, Executive Director of the National Alcohol Beverage Control Association; to Manuel Espinoza, Acting Director of the California Department of Alcoholic Beverage Control; and to Karen Gregory, Deputy Administrator, Oregon Liquor Control Commission who all took the time to travel to Washington and to John Rutherford, Retail Consultant, West Virginia Alcohol Beverage Control Administration who fielded countless questions by telephone.

And we would like to thank those representing stakeholder groups who attended each meeting and provided insights into the issues from both public and private sector perspectives.

Finally, a special word of thanks to Maureen Clingman who provided administrative support to the members of the Task Force with patience and humor.

A list of individuals and organizations providing submissions to the Task Force can be found in Appendix C.

WASHINGTON STATE RETAIL LIQUOR SALES TASK FORCE
FINAL REPORT – DECEMBER 2000

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Section 1 – Executive Summary

1. EXECUTIVE SUMMARY

In April 2000, Governor Locke appointed a Task Force to provide an independent citizen review of issues regarding the operation of the Washington State Liquor Control Board's retail division and the appropriate role of the state in liquor sale.

The assignment was to examine the operations and performance of the Washington State Liquor Control Board's Product and Retail Division, based on generally accepted business practices and similar operations in other states.

In addition, the panel was asked to evaluate the appropriateness of the state's monopoly over liquor sales and alternatives to the current system, including but not limited to, privatization options.

Finally, the Panel was to provide recommendations to the Governor for improvements or modifications in the state's system from the standpoint of business efficiency and economies, public health and safety, enforcement and control, customer service and convenience, profitability, and other appropriate criteria.

The 18 member Task Force included a state store manager, agency owner, representatives of the liquor industry/licensees, law enforcement, local government, labor, public health & safety, tribes, citizen representative, and clergy from both eastern and western Washington.

The Task Force began its work on April 19, 2000. Members received brief overviews of the Liquor Control Board, the Product & Retail Services Division and of guiding statutes. They also developed operating ground rules, a communications plan and a workplan.

The Task Force met ten times from April through December 2000. Meetings were held in SeaTac. In addition four public hearings were held; two in Spokane and two in SeaTac.

The Task Force's conclusions and recommendations are organized in the following areas:

- Appropriateness of the state's monopoly over liquor sales and alternatives to the current system
- Improvement in the operations and performance of the LCB's product and retail services division
- Sale of wine in the state retail system
- Availability of alcohol
- Education and prevention
- Local involvement and control

Summary of Task Force Conclusions and Recommendations

The Task Force reviewed the Liquor Control Board (LCB) retail operations; explored a number of structural alcohol sales options from government control to privatization; and assessed overall economics, business efficiency, revenue, and distribution of dollars. In forming their conclusions they considered public health and safety, enforcement and control and community needs.

In addition, public input was solicited throughout the Task Force deliberations, via the project website, press releases, in-store flyers, open public meetings and four public hearings. Of the input received, only 25% advocated for any change to the overall system. Seventy-five percent (75%) actively supported the current system or spoke only to changes they would like to see to the current system. More than two thirds of the unaffiliated citizens support the current system.

Based on this review, the Task Force presents the following conclusions and recommendations.

Appropriateness of the State's Monopoly Over Liquor Sales and Alternatives to the Current System

The Task Force considered three options in addition to the current system including full privatization of both wholesale and retail sales of alcohol, state wholesale operations with sale of spirits through retail contract vendors, and state wholesale operations with sale of spirits through retail franchises. The Task Force is divided on its recommendation regarding the appropriateness of the state's monopoly over liquor sales with improvements and the alternative of retail sale of spirits exclusively through contract vendors (agency stores).

By a vote of 11 to 5, a majority of the Retail Sales Task Force has concluded that the existing LCB method of selling spirits with improvements best serves the interests of all citizens of our state. This conclusion was reached after many months of discussion, study, expert testimony, public input, and evidence review. This conclusion and recommendation is based on the following:

- The LCB model satisfies criteria that the entire Task Force agreed were the key criteria to use in reaching this decision.
- There is no public outcry for ending the existing state wholesale and retail monopoly over sale of spirits.
- An analysis of costs and benefits strongly favors retention of the existing LCB model.

Five of the Task Force members believe the retail operations for the sale of liquor in the state of Washington would be better served by transitioning all retail outlets to agency contract storefronts. There is a belief that customer service, efficiency, and cost control would be improved through private sales operations. The conflict of purpose by a state agency regulating and competing with the private sector would be removed by moving to an all agency model. The state's focus would then be more clearly directed to enforcement, education and licensing, thus an improvement for the citizens in our state.

Improvement in the Operations and Performance of the Liquor Control Board's Product and Retail Services Division

The Task Force was in agreement that improvements are needed to the current retail liquor sales operations and made a number of recommendations. These improvements are in the areas of customer convenience, store and agency practices and procedures, performance standards and accountability, wholesale operations, information technology and funding.

In order to assure that retail spirits outlets are convenient and accessible to customers, the Task Force recommends that the LCB should:

- Define store placement and development policies
- Add retail outlets to keep pace with growing population
- Consider expanded use of contract agents

Store and agency practices and procedures should be updated to:

- Improve in-store product merchandising
- Develop and communicate criteria for retail shelf space allocation
- Continue regular surveys of direct retail customers
- Institute customer service and product training in stores and agencies
- Make enforcement training and education equally available to agency owners and employees
- Improve agency commissions by increasing the commissions and restructuring the commission schedule to take in consideration the increased cost for the medium to high volume agencies.
- Provide a means for contract agencies to participate in technology improvements and to obtain health care options for contract agency personnel

Performance standards and accountability for retail operations should be expanded to include:

- Appearance
- Stock level
- Signage and pricing
- Tracking out-of-stock items
- Employee training and education

- Compliance with selling regulations with zero tolerance for state and agency employee non-compliance

The Task Force supports LCB efforts to improve distribution services to wholesale customers including access and convenience needs for wholesale distribution to Spirits, Beer and Wine, Restaurants.

The Task Force concurs with the need for effective modern support systems and recommends that any proposals for capital expenditures include accountability for return on invested capital for operational improvements. The Task Force stressed that in the bidding process it is important to specify the level of service necessary to accomplish the stated goals.

The Task Force recommends that an effective funding mechanism be developed that enables the LCB to reinvest some portion of their profits into improvements in the retail system. Consideration should be given to a non-appropriated funding category for retail system improvements.

Sale of Wine in the State Retail System

A concern, included in many of the Task Force discussions, was that different rules exist for the state and private business in the sale of wine. These include acquisition costs, relationship of wholesale and retail, pricing, payment on delivery, in-state wineries, bailment inventory, advertising, products allowed and hours of sale. Some members strongly felt that the state should abide by the same rules and regulations that they impose on the private sector.

These issues have been discussed since the 1969 legislation that permitted out-of-state wines to be sold in private retail stores. Prior to that time the state was the sole distributor of out-of-state wines. Over 50% of the wine was sold through state stores in the 1960's. This number is now down to 10%. The state retail stores are important outlets for many of Washington's smaller wineries.

No clear consensus was reached on recommendations for resolution of these issues. It is clear, however, that there is a need to address fair practices for the state/private sale of wine.

Availability of Alcohol

A major objective of the liquor control system is to minimize the opportunities for alcohol abuse/misuse by providing effective controls at the point of sale. This includes availability to persons under 21 in age or under the influence. "Where access to alcohol is greater, consumption is greater. When consumption rates are high, problems related to alcohol increase dramatically."[1].

In Washington, there is no written restriction on the number of state retail outlets for spirits. The policy of the LCB is to add outlets where needed based on population growth and

[1] Victor Coleman, Washington State Department of Health

customer convenience. However, the primary limitation on the addition of state retail outlets appears to be the ability to obtain budget appropriations to staff new stores.

While there is a broad statewide limit on liquor by the drink establishments (Spirits, Beer and Wine Restaurants) not to exceed one license for each 1,500 population (RCW 66.24.420), there are no specific density or jurisdictional limits to the number of other private retail outlets, i.e. off-premise beer/wine and on-premise spirits/wine/beer. There is nothing in WAC or RCW that restricts the number of grocery store or specialty wine and beer stores, i.e. off-premises beer and wine sales.

The Task Force recommends the following regarding state store and/or contract agency placement, development, and selection criteria for retail sale of alcohol:

- Include a significant element of local control with input from communities about renewal of contracts based on regulatory compliance.
- Limit the number of outlets. This should include a population-based scale and allow for proximity limits and "alcohol-free zones".
- Limit hours of operation
- Minimize access to underage persons through use of separate merchandise areas and/or entrances. Agency stores with other merchandise may be more of a target of opportunity for youth, especially in metropolitan areas.
- Specify limits to sale of other merchandise
- Incorporate enough profit into the contract agency sales structure to maintain high standards of business, recognizing that business costs will vary by area
- Specify standards for advertising in contract agency stores as well as state stores.

The Task Force also supports the need for increased emphasis on enforcement of liquor regulations.

Education and Prevention

In 1999 $194M of the revenue generated through liquor sales (taxes, license fees and profits) was distributed to various funds including the state general fund, counties, cities and border areas, universities, state agencies, etc. Of that amount $18M (9.3%) was specifically targeted to alcohol and/or drug related education, prevention or treatment programs. Of that amount, $155,000 was directed to juvenile alcohol and drug prevention and only at the K-3 level.

The Task Force believes that the funding for education on the affects of alcohol and prevention of alcohol misuse and abuse is inadequate. The Task Force recommends that a larger proportion of the revenues generated through liquor sales be specifically targeted to support education programs on the affects of alcohol including beer and wine, as well as spirits. This alcohol education should be focused on youth, be an ongoing process and start in the lower grade levels.

Local Involvement and Control

There is strong evidence that community-based prevention activities can result in decreases in alcohol consumption. The Task Force recommends that more opportunity be provided for local input in retail sales outlet placement and contract and license renewal. As many communities are not aware of their ability to influence outlet placement and license renewal, the LCB should initiate efforts to build community awareness.

Communities should also be encouraged to be actively involved in prevention-based activities.

Implementation of the Task Force Recommendations

The Task Force recommends that the Governor and the Liquor Control Board conduct a formal review within eighteen months to assess progress on implementation of these recommendations.

Governor's Task Force on the Retail Sale of Alcohol

- **Bernie Dochnahl**, Chair
- **Denis Austin**, Pasco Chief of Police
- **Janet Boyd**, President, UFCW Local 1001
- **The Reverend John Cornelius**, Everett WA
- **John Daniels, Jr.**, Chairman, Muckelshoot Tribe
- **Patty Genova**, Washington Distillers Association
- **Kay Godefroy**, Executive Director, Seattle Neighborhood Group
- **Sue Gould**, Former State Legislator, Edmonds WA
- **Theresa Hancock**, Contract Liquor Vendor
- **Mary Kurcaba**, WPEA, Manager, Store #104
- **Karen Minahan**, President, King County MADD
- **John A. Moyer**, Former State Legislator, physician
- **Tom O'Keefe**, President, Tully's Coffee
- **Mary L. Place**, Mayor, City of Yakima
- **Lyn Tangen**, Washington Wine Institute
- **Kevin Weatherill**, Brown & Cole Stores
- **Ben Woo**, Citizen
- **James J. Stonier**, was appointed Cowlitz County Superior Court Justice in Nov 2000 and was required to withdraw from the task force.

Maureen Clingman, Liquor Control Board, provided staff support.

Roundtable Associates (Bob Archey, Art O'Neal and Marianna Archey) provided organizational analysis, process and facilitation support.

Section 2 – General

2. GENERAL

2.A. INTRODUCTION

Governor's Charge

In April 2000, Governor Locke appointed a Task Force to provide an independent citizen review of issues regarding the operation of the Washington State Liquor Control Board's retail division and the appropriate role of the state in liquor sale.

The assignment was to examine the operations and performance of the Washington State Liquor Control Board's Product and Retail Division, based on generally accepted business practices and similar operations in other states.

In addition, the panel was asked to evaluate the appropriateness of the state's monopoly over liquor sales and alternatives to the current system, including but not limited to, privatization options.

Finally, the Panel was to provide recommendations to the Governor for improvements or modifications in the state's system from the standpoint of business efficiency and economies, public health and safety, enforcement and control, customer service and convenience, profitability, and other appropriate criteria.

Task Force Members

The 18 member Task Force included a state store manager, agency owner, representatives of the liquor industry/licensees, law enforcement, local government, labor, public health & safety, tribes, citizen representative, and clergy from both eastern and western Washington.

- Bernie Dochnahl, Chair
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- Kevin Weatherill, Brown & Cole Stores
- Ben Woo, Citizen, Seattle WA
- James J. Stonier, was appointed Cowlitz County Superior Court Justice in Nov 2000 and withdrew from the task force.

The Liquor Control Board (LCB) selected through a competitive process an independent facilitation contractor, Roundtable Associates, to support the task force. Facilitation tasks included preparing for and facilitating meetings; review of the application of laws, rules, policies, and processes of the Product & Retail Services Division; data gathering, etc; developing background materials; and documenting the Task Force meetings and work products.

The Liquor Control Board played a supporting role as staff and convener to the Task Force.

2.B. BACKGROUND

History of State Liquor Regulation

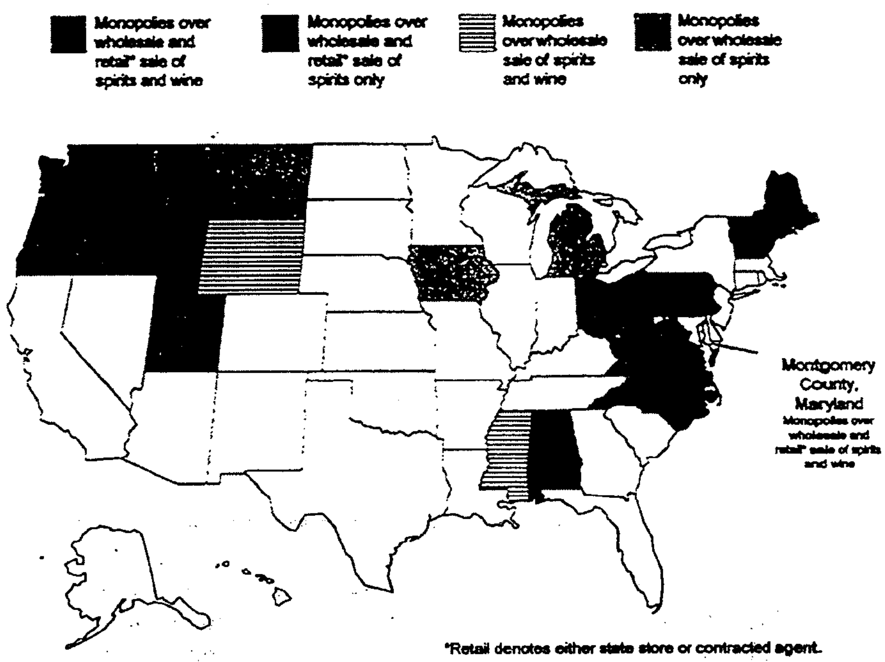
In 1920, the 18th Amendment created the "Volstead Act" (Prohibition). Prohibition banned the manufacture, sale, or transport of intoxicating liquor. In 1933, after 12 years of prohibition, the 21st Amendment to the U.S. Constitution ended prohibition. With the repeal of prohibition, control of the sale and distribution of alcohol was placed with state governments. Because of this decentralization, there is great variation in regulation and enforcement mechanisms used by the states to prevent the misuse of alcohol. However, there are two distinct types of alcohol distribution: control (monopoly) or license (open).

All states regulate the distribution and sale of alcohol, through licensing of outlets, limitations of hours of operation, taxation and other policies. What distinguishes control states from license states is the fact that the state takes ownership of the product at some point and becomes the exclusive seller in a particular sector of the business.

Washington along with seventeen other states and Montgomery County, MD directly control the sale of liquor at the wholesale level. Twelve of these states also control retail sales, which means their citizens purchase liquor at a state liquor store or designated agency outlet. The remaining states and the District of Columbia operate under what is called the "license" or "open" system. In license states revenue is derived from license fees and any taxes that are imposed. All profits from the sale of liquor stay with the private liquor store owner.

During the 67 years since the repeal of prohibition, none of the control states has dismantled their system in favor of the open system and none of the open states has converted to a state ownership system.

Monopoly Jurisdictions



Source: NABCA

The Washington State Liquor Control Act, commonly known as the Steele Act, was adopted by the state legislature in 1934. The Steele Act created a three-member board appointed by the Governor. The state liquor control system was a compromise between complete prohibition and unregulated repeal. Tight control of liquor distribution was established through state ownership of liquor stores and strict regulation of privately owned restaurants, stores and dispensaries selling light beer and wine.

The public was generally happy with the new state liquor laws and made no efforts to modify the Steele Act until after World War II. Hard liquor by the drink was adopted by Initiative in 1948. While a number of rules have been liberalized, no major changes to the state liquor control system have been made since. The responsibilities of the Board are the same now as in 1948, and include the retail distribution of all spirits and fortified wine. The Board licenses and regulates all alcohol beverage sales and activities.

Since 1948, a number of attempts have been made through the initiative and referendum process to allow the drinking age to be reduced to 18 or 19, to allow hard liquor to be sold in private retail grocery stores and to abolish the state monopoly were never filed or lacked the required number of signatures.

In 1968, the voters approved Initiative 242 by a margin of over two to one to require a driver to take an intoxication test if arrested for driving while under the influence of alcohol.

Beginning in 1972, several attempts at initiatives to allow liquor sales by licensed retailers were never filed or lacked the required number of signatures. The latest effort was Initiative 706, filed in the spring of 1999, which did not obtain the signatures required. (Appendix B. History).

Liquor Control Important To Governors

Although the post-Steele Act era may have been quiet in terms of major changes to the liquor control system, each governor for the past 35 years has had strong feelings about the need for change. In 1964, Governor Dan Evans favored abolishing the state liquor monopoly in response to alleged liquor scandals uncovered by the Legislative Council.

A bill (HB853) was sponsored in 1997 that would have abolished the LCB and replaced it with the Alcohol Administration Board of three members to be appointed by newly elected Governor Dixie Lee Ray. The bill died in committee.

The next governor, John Spellman, explored the possibility of abolishing the entire state liquor monopoly. However, after substantial study, he concluded that the state could ill afford to lose an estimated $27 million in liquor-related revenue.

In the face of continuing criticism of the LCB and convinced that nine-year terms left members too remote from public influence, Governor Booth Gardiner was successful in getting legislation approved reducing the terms to six years.

Governor Mike Lowry and his Liquor Control Board chair, Joe McGavick, in 1994, developed legislation to privatize retail liquor sales. Three options were presented to the Governor that included 1) streamlining current retail operations, 2) full privatization of retail sales, or 3) selling franchises to private bidders to operate a fixed number of private retail outlets. Governor Lowry chose the third option. SB 5490 was introduced in 1995 as a Governor request bill. The bill had one hearing and did not move out of committee.

In the face accusations from legislators of corruption and abuse of authority among enforcement officers, Governor Gary Locke assembled a Citizens Review Panel in August 1999 to study the LCB's Enforcement and Education Division. The most significant recommendation centered on the creation of a "Director" position at the Agency, the only department of state government without such a position. This position has subsequently been created and filled. It was the Panel's recommendation that the Director should ensure a consistent agency management philosophy; direct the development, implementation and monitoring of strategic priorities; and oversee the current operations of the retail, licensing, and enforcement, and support functions of the Agency, including hiring and firing of Agency staff.

In April of 2000, Governor Locke appointed 18 citizens to a new task force to study and make recommendations about how the State's retail liquor function should be managed in the future.

Section 3 – Findings and Recommendations

3. CONCLUSIONS AND RECOMMENDATIONS

The Task Force reviewed the LCB retail operations; explored a number of structural alcohol sales options from government control to privatization; and assessed overall economics, business efficiency, revenue, and distribution of dollars. In forming conclusions the Task Force focused on public health and safety, enforcement and control and community needs.

In addition, public input was solicited throughout the Task Force deliberations, via the project website, press releases, in-store flyers, open public meetings and four public hearings. Of the input received, only 25% advocated for any change to the overall system. Seventy-five percent (75%) actively supported the current system or spoke only to changes they would like to see to the current system. More than two thirds of the unaffiliated citizens support the current system. Additional public input is included in Appendix C.

Based on this review, the Task Force presents the following conclusions and recommendations. The organization of this section is based on the elements of the charge from Governor Locke.

A. Evaluate the appropriateness of the state's monopoly over liquor sales and alternatives to the current system, including but not limited to, privatization options; and
B. Examine the operations and performance of the LCB's Product and Retail Services Division, based upon generally accepted business practices and similar operations in other states,
C. Based on this examination and evaluation, submit recommendations to the Governor for improvements or modifications in the state's system from the standpoint of business efficiency and economies, public health and safety, enforcement and control, customer service and convenience, profitability, and other appropriate criteria.

3.A. APPROPRIATENESS OF THE STATE'S MONOPOLY OVER LIQUOR SALES AND ALTERNATIVES TO THE CURRENT SYSTEM

The Task Force considered three options in addition to the current system including full privatization of both wholesale and retail sales of alcohol, state wholesale operations with sale of spirits through retail contract vendors, and state wholesale operations with sale of spirits through retail franchises. After discussion of all options, the full privatization and franchise options were removed from consideration. Additional information on these options can be found in Appendix E.

The Task Force is divided on its recommendation regarding the appropriateness of the state's monopoly over liquor sales with improvements and the alternative of retail sale of spirits exclusively through contract vendors (agency stores). The following are the two positions of the Task Force members. Sixteen of the seventeen members participated in the preference vote on November 29, 2000. Additional information on each of these options can be found in Sections 3.D and 3.E of this report.

1. LCB--State and private retail sales of spirits (current system with improvements)[1]

By a vote of 11 to 5, a significant majority of the Retail Sales Task Force has concluded that the existing LCB method of selling spirits with improvements best serves the interests of all citizens of our state. We reached this conclusion after many months of discussion, study, expert testimony, public input, and evidence review. We base our conclusion and recommendation on the following:

- The LCB model satisfies criteria that the entire Task Force agreed were the key criteria to use in reaching this decision.
- There is no public outcry for ending the existing state monopoly over wholesale and retail sale of spirits.
- An analysis of costs and benefits strongly favors retention of the existing LCB model.

Criteria

Prior to a detailed examination of the existing system and alternatives, the Task Force spent considerable time designing a set of criteria against which all options would be measured. The entire Task Force unanimously agreed on these criteria which are described in detail in Sections 2.C and Appendix A of this Report. Eleven members of this Task Force believe that the existing LCB monopoly over spirits sales, with improvements, satisfies these criteria:

1. Availability. The existing LCB system prevents misuse and abuse of alcohol through controlled distribution of spirits.
   - Density of outlets is controlled.
   - Hours of operation are limited.
   - Because advertising is prohibited, there is no stimulation of demand.
   - LCB stores sell only liquor. Since no other products are available, there is no reason for underage people to be in LCB stores; and when they are there, they are very visible.

   Public health and safety are served by the existing LCB model that controls availability and access of liquor, particularly to those under 21.

2. Compliance and Enforcement. From the evidence presented to the Task Force, it appears that the LCB has an exemplary record of compliance with and enforcement of state liquor laws. Manuel Espinoza, Acting Director of the California Alcoholic Beverage Control agency volunteered that the LCB has a

[1] This position statement was composed by the members of the Task Force that preferred the state and private retail sales of spirits (current system with improvements) option.

very good record in the areas of compliance and enforcement. Jim Squeo, Executive Director of NABCA, agreed.

3. Revenue/Prevention Programs. The dollars available for prevention, treatment and education programs depend in large part on the revenues generated from sales of alcoholic beverages. Washington State ranks first in the country in terms of revenue returned to the state from the sales of spirits.[2] There is no evidence that any alternative system could generate more revenues for the state.

4. Jobs, Wages, Benefits. The Washington LCB model provides a stable work force, far exceeding the normal retail employee retention rate. The level of pay and benefits for state store employees is generally better than for employees in contract agency stores, and this may contribute to the stability of the work force in LCB stores. A stable workforce means that experienced, well-trained employees staff the LCB stores. This reduces the likelihood of juvenile access to alcohol. It also means good customer service and two recent surveys[3] have indicated that LCB customers are generally satisfied with customer service in the LCB stores.

   It is important to note that the state has greater ability legally to control and direct state employees than it does to control and direct independent contractors, which is what the contract agency owners are.

5. Product Selection and Price. There is no dispute that the product selection offered by the LCB is superb. Virtually any product that is available in the United States can be purchased through LCB stores. We also note that the system of "bailment inventory" (where the LCB does not pay for the product in inventory until it actually leaves the LCB distribution center) allows the LCB to carry a large and diverse inventory of products.

The existing LCB model also provides uniformity of pricing and product availability, in both state stores and in agency stores, across the State of Washington, from the largest metropolitan areas to the smallest towns. The two recent customer surveys cited in footnote 2 indicate general customer satisfaction with product selection.

The Task Force is aware of some customer complaints about the high price of spirits in Washington. However, it is clear that this is attributable to the high levels of tax imposed on spirits in Washington, and not to any practices of the LCB. Evidence reviewed by the Task Force shows that prices would be even higher with privatization.[4]

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[2] 1998 DISCUS study

[3] Appendix J of this report

[4] "Privatization" as used here does not include the all-agency model recommended by the minority of the Task Force.

6. Efficiency. The existing LCB model may not be as efficient as private retailers could be in selling spirits because the state is not profit-driven. Its mission is to *control* availability of and access to alcohol, not to promote it. Despite this limitation, the efficiency of LCB retail operations should be improved (Section 3.B)

7. Conflict of Interest. We see no inherent conflict between the LCB's selling of alcohol and its regulatory/enforcement mission. The LCB is not profit-driven and one of the key ways it controls and regulates the availability of alcohol is through controlling sales.

   If indeed there is some kind of inherent conflict, as the minority seems to believe, we do not see that it would be eliminated by the state's selling alcoholic beverages through commissioned agents (the all-agency system) rather than through employees. In either case, the state is selling alcoholic beverages.

8. Local Input. The existing LCB model can accommodate local input as easily as the all-agency model favored by the minority. There is nothing inherently superior or inferior about either of the two models with respect to local input.

Absence of Public Outcry

There is no public demand or outcry to eliminate the state's monopoly on wholesale or retail sale of spirits. Although all of the Task Force meetings were open to the public, few if any disinterested members of the public ever attended. See also the two surveys cited in footnote 2, which indicate general satisfaction with the existing system of retail sales, and the public comments, which appear in Appendix C. In short, the LCB model seems to be doing what the public wants and in the way that the public finds satisfactory.

Perhaps this general public satisfaction with the existing system explains why our state legislature has rejected efforts to end the state's monopoly on spirits and why voters have similarly turned down proposed changes to the existing LCB system.

Cost/Benefit Analysis

Since there appear to be no major deficiencies in the current system that would warrant throwing it out, and no public interest in doing so, we favor improving the LCB model instead of replacing it with the all-agency model recommended by the minority. The cost of replacing the current LCB system with the all-agency system would be high in terms of dollars and people power and the benefits of doing so are, at best, uncertain. There is simply no evidence that the all-agency system would be more effective in controlling availability of alcohol, enforcing liquor laws, generating revenue, providing better jobs with higher wages and benefits, improving customer service or product selection or pricing, or any of the other criteria unanimously adopted by the Task Force.

2. Retail sales of spirits under the Agency option (no State retail stores)[5]

Five of sixteen Task Force members preferred the Retail sales of spirits under the Agency option (no State retail stores) for the following reasons:

<u>Conflict of Purpose</u>

The state LCB mission is to control and that should be its primary focus. The Task Force agreed that there is a need for "control", but was split upon the issue of whether or not the State should be out of the business of directly "selling" alcohol products to its citizens. The Agency option is a preferred retail choice because it would still offer strong State "controls" while more appropriately allowing the State to focus its resources, energy and talents on education/enforcement. Without the burden of considering retail operational issues and reinvestment choices the State could focus more directly on education and enforcement.

The citizens of Washington would be better served by a LCB that remains focused on an advocacy for resources to support improved education, particularly for young school aged children, and strong enforcement of laws pertaining to the sale and consumption of alcohol. Wearing "two" hats places a conflict on the LCB that can be seen by reviewing the most current budget proposal. The LCB's pursuit of significant investment to improve their retail operations, using a Deloitte Touche study to validate their direction, completely overshadows their focus on education/enforcement issues.

We believe that privately operated agency stores would remove the conflict of purpose within the current LCB system, i.e. fostering awareness education, controlling access, and performing the licensing/enforcement function while at the same time attempting to provide an optimal retail outlet.

<u>Business principles</u>

State regulation of the industry and competition with the private sector at the same time is a direct violation of business principles. The dual role of selling alcohol and eliminating abuse is conflicting. By the transition to private contract agencies, the LCB focus would be on education, enforcement and licensing. Without the vested interest in market share and revenue, the educational and enforcement roles would become the primary focus. This is the optimal role and purpose for state governments in the business of alcohol is education and enforcement.

<u>Best retail management practices</u>

Private entrepreneurs conduct a more effective and efficient retail operation. Agency store operators are entrepreneurs and their accountability for the bottom line motivates the operation of an efficient business.

While public input did not cry out for change, most citizens could not make a distinction between agency stores and state run stores. There seems to be a general

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[5] This position statement was composed by the members of the Task Force that preferred the Retail sales of spirits under the Agency option (no State retail stores).

lack of knowledge of any difference between the two. Liquor enforcement officers, law enforcement officers and LCB staff acknowledged the ability of agency stores to effectively control liquor sales.

If the public was aware that agency stores have the potential to generate between $4 and $8 million in additional revenue, citizen support may endorse liquor sales through an all agency model.

Best management practices would be advanced more effectively in the all-private contract agency option. The private sector has a proven track record in providing good retail customer service. Some task force members believe customer service in retail sales can only be advanced through the private, entrepreneurial model. The current agency system operates more efficiently than the state run stores – agency stores deliver the service for less cost.

<u>Reduce government bureaucracy</u>

The increasing number of citizen initiatives indicates Washington citizen's discontent with government bureaucracy. A move to reduce the number of government employees and move more work that should be done in the private sector to the private sector would indicate a change in leadership direction.

<u>Retail expertise and experience</u>

Hiring practices, in some instances, seem to stifle the retail operations of the LCB. Manager and assistant manager positions and full time clerk positions are open as an internal promotion only. Applicants must be in a permanent position with the LCB before they can apply for the position. This eliminates many qualified, capable and innovative applicants from entry in the LCB workforce. Outside experience in retail practices would improve the retail service to customers. This experience is already in place in the agency model.

Also, the employment practice of providing benefits to employees working only 8 hours a month exceeds standard employment practices and increases costs.

Distributors of liquor have found some difficulties in getting LCB store managers to assist or allow them to access stores in a reasonable manner to set displays, distribute customer information and institute general retail marketing practices. Distributors seem to have found agency personnel more interested and accommodating to the same retail marketing practices.

<u>Agency commissions</u>

The task force members offering this alternative option feel it is important to fund agency stores sufficiently to ensure that they provide a quality retail experience and maintain agencies as viable businesses. Commissions need to increase to reflect economic realities. Even with commission increases, overall LCB costs could decline if a transition were made to an all agency model.

Level playing field

With the state in the retail sales business, it has the dual role of regulator and competitor. This two-headed function sets up barriers to effective communication between the private sector and the public sector. Additionally the LCB does not adhere to the same standards it enforces on the private sector. The LCB enforces the 3-tier system that imbeds certain business costs upon the private sector while at the same time enhancing their revenues by avoiding participation in that very system. The LCB sells wine for less than the private sector to maintain its market share. To their advantage, the LCB is competing with private industry by not playing by the same rules. The private sector has to incur a distribution cost in their retail pricing that the LCB avoids.

One task force member stated the following: "Should the state of Washington abide by the same rules and regulations that they impose on the private sector?" or "should the state of Washington be above the rules they impose on the private sector?" By maintaining the current LCB system, the answer is clearly YES.

Yakima citizen input

The mayor of Yakima received weekly taxpayer calls on a talk radio program, with a majority of opinions requesting the State get out of the retail liquor business.

Leadership

The LCB is a system in place for 67 years. There has been positive change in the last two years. The imbedded system is unlikely to change, however, on its own initiative. Leadership is needed now to advance positive change to an agency system. A moderate, 5 to 10 year transition is proposed that would minimize the staffing and personnel displacement.

The time to act is now.

Note: If the contract agency only option is chosen, the Task Force recommends that the transition to all agency stores occur over a 5 to 10 year period of time and include opportunities for employees to obtain an agency contact. In addition, the state should provide transition re-training and give preference for certain kinds of (new) jobs to current state store employees.

3.B. OPERATIONS AND PERFORMANCE OF THE LCB'S PRODUCT AND RETAIL SERVICES DIVISION

The Task Force considered Liquor Control Board retail sales operations in the context of its mission to minimize the inappropriate use of alcohol while at the same time serve those people who use it appropriately.

Customer surveys conducted by the Liquor Control Board (1999 WSU study) and the United Food and Commercial Workers Local 1001 (1999 Garner Group Poll) both gave high marks to the customer service provided by Washington State retail liquor stores.

Control state retail practices in the states of Pennsylvania, Utah, Idaho and Virginia were analyzed. Under the control state mission, performance measurements emphasize productivity of employees (volume measures), availability of the product that the customer came to purchase, and provision of a customer friendly place to shop.

Both the business plan developed by the Liquor Control Board and the 1999 analysis performed by Deloitte & Touche found that the information systems, processes and procedures that have supported the retail sales operations for many years are in need of significant improvement. The LCB is at a decision point as it faces the requirements to modernize its retail operations. Major investments are proposed to the Board's information systems as well as major process changes.

Recommendations

The Task Force, through its own retail working group, a review of the Deloitte & Touche business plan analysis, and discussions with the Liquor Control Board, believes that improvements should be made to retail liquor sales operations. These improvements are in the areas of customer convenience, store and agency practices and procedures, performance standards and accountability, wine sales, wholesale operations, information technology, funding and governance.

Customer Convenience

In 1971 there were 275 LCB outlets for spirits. By 1981 the number had increased to 368 outlets, equally divided between state operated and contract agency stores. By 1999 this number had declined by 15% to 315. During the period 1981 – 1999 consumption of spirits decreased by 18%, while the adult population increased by 40%.

In order to assure that retail spirits outlets are convenient and accessible to customers, the Task Force recommends that the LCB should:

- Define store placement and development policies
- Add retail outlets to keep pace with growing population
- Consider expanded use of contract agents

Store and Agency Practices and Procedures

The Task Force formed a working group to consider improvements to LCB retail operations. Based on this work the Task Force recommends the following:

- Improve in-store product merchandising
  - ✓ Improve displays – in concepts, consistency and implementation
  - ✓ Make more information resources available to stores and customers including product reviews, vintage charts, etc.
  - ✓ Increase the use of technology, e.g. store-agency-wholesale-retail networks
- Develop and communicate criteria for retail shelf space allocation
- Continue regular surveys of direct retail customers
- Institute customer service and product training in stores and agencies
- Make enforcement training and education equally available to agency owners and employees
- Improve the agency compensation formula to make it equitable to both large and small stores. This is a two parts process:
  1. Implementation of the increase of 6% in commission for contract agencies included in the LCB 2001/2003 budget proposal, and
  2. Improve agency commissions by increasing the commissions and restructuring the commission schedule to take in consideration the increased cost for the medium to high volume agencies. The task force for it's analysis used a volume handling compensation formula that helped increase the commissions to those agencies, while not taking away commission dollars from the smaller volume agencies.
- Provide a means for contract agencies to participate in technology improvements and to obtain health care options for contract agency personnel

Performance Standards and Accountability

Current LCB performance measurements for retail store operations emphasize adherence to budget allocation, availability of the product, and provision of customer service. The Task Force recommends that performance standards and accountability for retail operations be expanded to include:

- Appearance
- Stock level
- Signage and pricing
- Tracking out-of-stock items
- Employee training and education
- Compliance with selling regulations with zero tolerance for state and agency employee non-compliance

Wine Sales

A concern, included in many of the Task Force discussions, was that different rules exist for the state and private business in the sale of wine. These include acquisition costs, relationship of wholesale and retail, pricing, payment on delivery, in-state wineries, bailment inventory, advertising, products allowed and hours of sale. Some Task Force members strongly felt that the state should abide by the same rules and regulations that they impose on the private sector.

These issues have been discussed since the 1969 legislation that permitted out-of-state wines to be sold in private retail stores. Prior to that time the state was the sole distributor of out-of-state wines. Over 50% of the wine was sold through state stores in the 1960's. This number is now down to 10%. The state retail stores are important outlets for many of Washington's smaller wineries.

Some ideas discussed by the Task Force under the LCB retail sales and agency option were:

- Allow the individual contract agency manager to decide whether to purchase wine and/or beer through private wholesalers based upon consumer demand and customer service criteria for their area.
  - Contract agencies would be required to apply for a beer and wine license
- Address the parity issue in the state/agency retail sales of wine and beer. Possible solutions include:
  - Require state and agency stores to buy all wine and beer products through the private wholesale system. This would, in effect, require the state to abide by the same rules as private sector businesses, or
  - Set the retail price of wine and beer provided through the state wholesale system based on the private wholesale acquisition cost and retail markup, or
  - Eliminate wine and beer sales in state and agency stores, or
  - Other options
- Find ways to improve the distribution of wine from Washington wineries

The Task Force reached no clear consensus on recommendations for resolution of these issues. It is clear, however, that there is a need to address fair practices for the state/private sale of wine.

Additional discussion on this issue can be found in Appendix J.

Wholesale Operations

Both state operated and contract agency stores serve as distribution points for spirits to on-premise licensees, i.e., Spirits, Beer and Wine Restaurants. There is a perceived lack of consistency in individual store policies that deal with these wholesale customers, e.g. pickup can be at inconvenient times and locations. In addition, the LCB stores do not have adequate staff to fill both retail and wholesale functions.

The Deloitte & Touche report stated "when benchmarked against other specialty retailers and the control states in the areas of procurement, inventory management and distribution, the LCB typically performed as good or better where data was available for comparison. While there are still opportunities for improvement, planned technology investments should further enhance operating efficiencies. *The most significant gap involves fulfillment of wholesale customer orders, from product selection and ordering to delivery.*"

The Task Force supports LCB efforts to improve distribution services to wholesale customers including access and convenience needs for wholesale distribution to Spirits, Beer and Wine, Restaurants

Information Technology

In a discussion of Point of Sale (POS) and Merchandising Business System (MBS) systems, Deloitte & Touche also noted in their report "an immediate issue is the reliability of these systems, the quality of the data, and the limited reporting available to support management decision-making."

The Task Force concurs with the need for effective modern support systems and recommends that any proposals for capital expenditures include accountability for return on invested capital for operational improvements. It is understood that proposals to upgrade these systems will go through a formal feasibility review and approval by a state oversight committee. The Task Force stressed that in the bidding process it is important to specify the level of service necessary to accomplish the stated goals (a "Chevy" or "Porsche" will both get to the destination).

The proposed improvements in technology include:

- Create a strong networking capability to further improve processes
- Update information technology infrastructure
- Consider the purchase of a Point Of Sale (POS) system that is easily integrated to the planned Merchandising Business System (MBS) and Warehouse Management System (WMS).

  The LCB 2001/2003 Biennium Budget Proposal includes purchase and installation of a Merchandising Business System with Data Marts to replace obsolete forecasting, purchasing, financing and Point-of-Sale systems.

The LCB is preparing a feasibility study including a cost/benefit analysis. Benefits include:

- Less system downtime
- Data integrity
- Efficient order handling
- Accurate billing
- Headcount and cost savings

As recommended in earlier in this section under Store and Agency Practices and Procedures, LCB should provide a means for agencies to participate in technology improvements.

Funding

With the exception of purchase of alcoholic products, funds for operation of the state wholesale and retail sales system are obtained through legislation appropriations. This includes improvements to the existing system that would increase efficiency, effectiveness and customer service. Appropriated budget constraints often restrict investments in system improvements.

The Task Force recommends that an effective funding mechanism be developed that enables the LCB to reinvest some portion of their profits into improvements in the retail system. Consideration should be given to a non-appropriated funding category for retail system improvements.

Governance and Implementation

The Task Force discussed the need for effective implementation of the improvements recommended to the retail system. The members stressed the importance of effective LCB policy making and execution in making the improvements a reality.

The Task Force recommends that the Governor and the Liquor Control Board conduct a formal review within eighteen months to assess progress on implementation of the recommendations.

presents recommendations for effective prevention strategies. See Appendix D for additional detail.

In Washington State there are approximately 315 outlets for off-premise sale of spirits, and 5,500 for off-premises sale of wine and/or beer. There are at least 1,500 outlets for on-premise sale of spirits, wine and/or beer. The state retail sales operation consists of the 315 outlets primarily focused on controlled sale of spirits. The remaining are private retail outlets.

There is no written restriction on the number of state retail outlets for spirits. The policy of the LCB is to add outlets where needed based on population growth and customer convenience. However, the primary limitation on the addition of state retail outlets appears to be the ability to obtain budget appropriations to staff new stores.

While there is a broad statewide limit on liquor by the drink establishments (Spirits, Beer and Wine Restaurants) not to exceed one license for each 1,500 population (RCW 66.24.420), there are no specific density or jurisdictional limits to the number of other private retail outlets, i.e. off-premise beer/wine and on-premise spirits/wine/beer.

There is nothing in WAC or RCW that restricts the number of grocery store or specialty wine and beer stores, i.e. off-premises beer and wine sales.

WAC 314-16-050 limits hours of sale to 6 AM to 2 AM, making no distinction between spirits, wine and beer – on-premise or off-premise. Off-premise spirits sales are not allowed on Sunday (RCW 66.16.080). State liquor stores limit hours of sale based on customer convenience and staff availability. Local governments may establish later opening or earlier closing hours; however, the hours established must apply to all licensed premises within the jurisdiction.

The retail options considered by the Task Force deal primarily with the current state retail sales and, under each option, limits can be placed on the number of spirits outlets. The limit used in the comparative analysis was based on the current number of outlets (315).

Recommendations:

The Task Force recommends the following regarding state store and/or contract agency placement, development, and selection criteria for retail sale of alcohol:

- Include a significant element of local control with input from communities about renewal of contracts based on regulatory compliance
- Limit the number of outlets. This should include a population-based scale and allow for proximity limits and "alcohol-free zones"
- Limit hours of operation
- Minimize access to underage persons through use of separate merchandise areas and/or entrances. Agency stores with other merchandise may be more of a target of opportunity for youth, especially in metropolitan areas

- Specify limits to sale of other merchandise
- Incorporate enough profit into the contract agency sales structure to maintain high standards of business, recognizing that business costs will vary by area
- Specify standards for advertising in contract agency stores as well as state stores (e.g. institutional is OK; price and item is not OK)

While any option can be effectively designed to limit availability, it is inherently easier in the control model.[8] The Task Force was often reminded that effective implementation is more important than the specific model that is used.

2) Effective and efficient in enforcement of liquor laws (Compliance)

The primary concern of this consideration is for sale of alcohol in compliance with regulations regarding people who are underage or under the influence.

Currently off-premise retail sale of spirits is exclusively the realm of the 315 state staffed and contracted outlets. These outlets exist to insure compliance with liquor laws rather than to promote sales of alcohol. Training provided to state employees emphasizes compliance with state laws. The LCB Enforcement and Education division in cooperation with state and local law enforcement enforces liquor laws. These outlets, both state and agency, have a good compliance record. Enforcement responsibilities would generally be the same for each option.

> [illegible]
>
> Levels of Evidence: [illegible] Youth
>
> The research and practice evidence reviewed indicates that it is possible to implement and enforce laws designed to prevent alcohol availability to minors.[9]
>
> There is strong evidence that there are substantial [illegible]
>
> [illegible] decreases but does not eliminate underage drinking.
>
> The enforcement efforts with the greatest immediate public health significance are those that break the link between drinking and [illegible]

In addition, there are over 5,500 off-premise beer/wine retail outlets. The primary responsibility for compliance with liquor laws lies with the individual owners of the retail business and the clerks who sell the liquor. While training is available, it is not mandatory. Enforcement is the responsibility of the LCB Enforcement and Education division in cooperation with state and local police.

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[8] James Sgueo, Executive Director, National Association of Alcohol Beverage Control States (NABCA)

[9] "Preventing Problems Related to Alcohol Availability: Environmental Approaches" page 35, Reference Guide, 1999, DHHS

Conclusion:

The Task Force supports the need for increased emphasis on enforcement of liquor regulations. In December 1999, a Citizen's Review Panel made recommendations regarding enforcement to Governor Locke. Six additional liquor enforcement agents, training and equipment, as recommended by the Panel, are included in the 2001/2003 LCB budget proposal.

3) Maintains or improves revenue generated for the state, cities and counties (Revenue)

The Task Force used the current Liquor Control Board revenue from sale of alcohol and the distribution of funds to state, counties and cities as a baseline. Comparative analysis of the Task Force options indicated that the agency option (as well as a franchise option also explored) can be structured to maintain and potentially increase revenue to the state and local governments. Attachments 1 and 2 of this Section provide a broad comparison of these options.

Conclusion:

Based on the above, the Task Force concluded that revenue considerations were not significant factors in choosing an option for retail sales of spirits.

4) Maintains or increases current level of revenue support for education, prevention and treatment on affects of alcohol (Prevention)

A recent study sponsored by the Department of Social and Health Services (DSHS) Division of Alcohol and Substance Abuse (DASA) was presented to the Task Force. The study estimated the total economic costs of alcohol and drug abuse in Washington State at $2.54 billion in 1996. This represents approximately $531 for every non-institutionalized resident in the state.

Among the study's key findings were:

- 59% of the economic costs were attributable to the use of alcohol; 41% to the use of drugs.
- Of the 2,824 deaths in 1996, 2,318 were alcohol-related, and 506 were drug-related
- Leading causes of substance abuse-related deaths were motor vehicle accidents (353 deaths), alcohol cirrhosis (291 deaths), and suicide (223 deaths.)
- Of 217 arrests for homicide, 65 were alcohol-related, and 22 were drug-related.
- Of 6,003 arrests for felonious assault, 1,801 were alcohol-related, and 144 were drug-related.
- Total estimated alcohol- and drug-related crime costs in 1996 rose to $541 million from $348 million in 1990, representing a 55% increase

In 1998

- A higher percentage of Washington State students in grades 8, 10, 12 had tried alcohol than their peers nationally. (62.7%, 79.7% and 84.2%)
- The percentage of Washington State high school seniors using alcohol in the past 30 days was similar to the national rate (52%)

- Washington State 8th and 10th graders were more likely to have used alcohol in the past 30 days than their counterparts nationally. (31% and 44.9%)
- A slightly higher percentage of high school seniors in Washington State engaged in recent heavy drinking than seniors nationally. (32.7%)
- A higher percentage of 8th and 10th graders in Washington State engaged in recent heavy drinking than seniors nationally. (27.7%)
- A lower percentage of Washington State high school seniors perceived great risk from heavy alcohol use than their national counterparts (38.6%)
- A lower percentage of Washington State 8th and 10th graders perceived great risk from heavy alcohol use than their national counterparts (38.3%)

- Washington State drunk driving laws have become increasingly tough in the past decade.

While little beer is sold through the state retail system, 52% of the alcohol consumed in the state is in the form of beer. Beer is thought to be the predominant source of alcohol for youth and should be a major part of alcohol education and prevention efforts.

In 1999 $194M of the revenue generated through liquor sales (taxes, license fees and profits) was distributed to various funds including the state general fund, counties, cities and border areas, universities, state agencies, etc. Of that amount $18M (9.3%) was specifically targeted to alcohol and/or drug related education, prevention or treatment programs. Of that amount, $155,000 was directed to juvenile alcohol and drug prevention and only at the K-3 level.

Recommendation:

The Task Force believes that the funding for education on the affects of alcohol and prevention of alcohol misuse and abuse is inadequate. The Task Force recommends that a larger proportion of the revenues generated through liquor sales be specifically targeted to support education programs on the affects of alcohol including beer and wine, as well as spirits. This alcohol education should be focused on youth, be an ongoing process and start in the lower grade levels.

5) Provides for good paying jobs and benefits for employees (Employees)

The recommendation to continue the LCB model with improvements will result in no loss of jobs for existing employees of state retail stores. The recommendation to eliminate all state retail outlets and replace them with all contract vendor (agency) outlets will result in the loss of all jobs in state retail stores. It is anticipated that this change would result in the loss of approximately 600 FTE's or 62% of the total current LCB employees. Additionally, retail clerks in contract vendor (agency) stores generally earn substantially less and have fewer benefits than state employees in the LCB stores. If there is a change to all-agency retail outlets, there will be a very significant impact on state employees and a detailed implementation plan would be required to minimize adverse impact on displaced employees.

Other options considered by the Task Force (franchise/total privatization) would result in the significant loss of jobs at LCB and agency retail stores, and would require the same kind of planning to minimize adverse impacts.

An additional concern is for the level of pay and benefits now received by state liquor store employees. While some private retail clerks, particularly in union represented businesses, receive compensation equivalent to state workers, many private retail clerks do not. They are low paid jobs with few benefits.

<u>Conclusion:</u>
Significant impact on current employees would occur with the implementation of the contract agency-only retail option. A recommendation on implementation is included in Section 3.A.

6) Maximizes product choice/selection at a fair market price (Products)

The current state retail system makes available the same products at the same prices through all of their retail outlets. There is an emphasis placed on the use of special ordering to meet customer needs.

Although the price of spirits in Washington is among the highest in the country, the sale of spirits in Washington does not appear to be greatly affected by the current price levels. There is a point, however, where increasing prices may lead to increased cross border sales, reduction in state revenues and illegal operations.

<u>Conclusion:</u>
In the options being considered, the state remains the sole wholesale outlet for spirits and the retail price of spirits will be the same at all retail outlets in the state. The special order process would be continued.

7) Encourages efficient retail operations (Efficiency)

<u>Conclusion:</u>
Either option should be designed to encourage investment of dollars into best management practices. The recommendations for improvement to current operations are included in Section 3.B above. Additional Task Force material is included in Appendix J.

8) Is fair to all participants in retail wine operations (Fairness)

<u>Conclusion:</u>
The Task Force discussions on this issue are summarized in Section 3.A and in the more detailed discussion in Appendix J.

9) Minimizes conflict of interests – profit vs. control *(Interests)*

<u>Conclusion:</u>
Some members of the Task Force felt that the current system under which the state sells, regulates and enforces the sale of alcohol creates an inherent conflict of interests (or purpose). Others felt that there is a conflict between sales and control under either the state or private system; and others felt that the state system minimizes the conflict as the state isn't driven by profits. The Liquor Control Board believes that the sale of spirits is a

Conclusions and Recommendations - Attachment 1

Summary of Options for Liquor Sales in Washington (Using 1999 LCB data and option estimates for comparison purposes)

Outlets – Spirits Off-Premise	315 ½ State ½ Agency	315 All Agency	*	315 All Private	Assume that # of spirits outlets will continue to be limited either by legislation or LCB action.
Outlets – Spirits On-premise	1,500	1,500	*	1,500	* State is wholesale seller of spirits to franchise retail outlets and on-premise spirits outlets (restaurants, etc.) There is currently a broadly stated statewide density limit but no specific jurisdictional limits.
Outlets –Beer and Wine Private off premise	5500+	5500+		5500+	There is currently a broadly stated statewide density limit but no specific jurisdictional limits
Gross Profit on Sales	$89,000,000	$89,000,000	$46,500,000 *	Private retail	State wholesale in franchise option includes sales to on-premise establishments, franchise stores, tribes and military.
Commission on Sales	$7,500,000	$38,400,000	na	na	Agency option includes addition of $0.15/bottle component
Direct Sales Expense – State	$36,000,000	$0	$5,000,000	Private retail	$5M is for additional state wholesale distribution functions
Merchandising Expense – State	$17,300,000	$16,500,000	$12,700,000	Private retail	Administrative, information systems, etc.
Net Profit – State	$28,200,000	$36,100,000	$28,800,000		Gross profit less commissions, direct sales expense and merchandising expense
Wholesale and Retail Mark-Up	51.7% (W + R)	51.7% (W + R)	21.2%	24%	Markups for Franchise based on revenue neutral model.
Cost of Bottle of Spirits to Consumer	$11.45	$11.45		$11.79	Based on bottle cost of $5.26.
Licensing and Enforcement Expense	$11,500,000	$11,500,000	$12,500,000		
Total LCB FTEs	964	363	401		Franchise option includes expanded wholesale distribution function.
Spirits Sales Tax - Retail	$40,000,000	$40,000,000	$40,000,000*		** See note below
Spirits Sales Tax – "H"	$9,300,000	$9,300,000	$9,300,000		On-Premise wholesale
Spirits Liter Tax	$64,000,000	$64,000,000	$64,000,000		Wine Liter Tax in 1999 = $15M, Beer Gallon Tax in1999 = $28M – Neither of these would be affected in any option
License Fees and Penalties	$8,500,000	$8,500,000	$8,500,000		
New License and Franchise Fees	$0	$0	$9,500,000*		** Franchise fee based on 5% of cost of goods to franchise

** Various combinations of wholesale mark-up, franchise fees and other fees, adjustments in sales or other taxes achieve revenue neutral in franchise option

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means of exercising control and no conflict exists. This is an age-old tension that has existed since prohibition. These differences in perspective made this a difficult consideration for the Task Force to use in its evaluation of options.

However, when dealing with allocation of scarce resources, the LCB must make decisions on whether to allocate scarce resources to favor education, prevention, and enforcement or favor sales of product. The Task Force recommends that the priority be given to education, prevention and enforcement.

10) Provides for local control and community accountability (Community)

This consideration includes maintaining high standards of quality in the community, safe working conditions for employees, and allows for local control and accountability. Local communities are a part of the licensing process for on- and off-premise sale of alcohol. The LCB will take into consideration the concerns of the community in approving licenses for retail sales outlets and spirits, beer and wine restaurants. This will continue to be the case under either of the Task Force options.

> **CSAP Reference Guide[10]**
>
> **Levels of Evidence: Community-Based Approach**
>
> **The research and practice evidence reviewed indicates that community-based approaches can produce coalitions that include multiple partners and address diverse issues.**
>
> - **There is strong evidence that community-based prevention activities can result in decreases in alcohol consumption.**
> - **There is suggestive but insufficient [illegible] death and injury [illegible]**

A report to the Task Force from the California Alcoholic Beverage Commission emphasized the importance of local involvement in the conditions of alcohol availability in their communities. In California, licenses are dealt with on a case-by-case basis on the local level with conditions on business, e.g. practices - hours, servers, and kinds of alcohol. Local communities have a voice in the transfer of licenses. The key to success is heightened community involvement in prevention. Communities are getting involved, primarily through zoning regulations, in the early economic development planning, e.g. malls, retail businesses, to keep health and safety in the forefront.

<u>Recommendation:</u>

The Task Force recommends that more opportunity be provided for local input in retail sales outlet placement and contract/license renewal. As many communities are not aware of their ability to influence outlet placement and license renewal, the LCB should initiate efforts to build community awareness.

Communities should also be encouraged to be actively involved in prevention-based activities.

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[10] Preventing Problems Related to Alcohol Availability: Environmental Approaches" page 46, Reference Guide, 1999, DHHS

Conclusions and Recommendations - Attachment 2

The following uses the comparative analysis model developed for this task force project.

The analysis:

- Holds the number of outlets constant at 315
- Uses data from the 1999 Liquor Control Board Operations Report
- Represents an view at a point in time after option has been implemented

	Franchise Fee/Year	Markup Wholesale	Markup Retail	Change in Net to State	Bottle Cost to Consumer
[redacted]					
Agency Option					
[redacted]					
Current commission formula	$0	51.7%		+ $12M	$11.45
Commission formula modified with $0.30/bottle addition	$0	51.7%		+ $4M	$11.45
Franchise Option					
[redacted]					
Markups @ 25%	$30,000	25%	25%	+$9M	$12.19
Franchise Fee @ $35K	$35,000	25%	25%	+ $11M	$12.19

Notes: The average franchise fee of $30,000 per franchise is based on a conservative formula of 5% of cost of goods to the franchise annually. Fees for individual franchises would vary based on sales projections for that franchise. A small rural franchise would have a small fee while a large Seattle store would have a much larger fee.

The franchise fee of $35,000 per franchise per year represents the fee proposed in 1995 for the first 164 franchises over the first 5 years. These franchises were to replace the existing state stores only and were therefore generally larger and with higher volumes than the agency stores.

The Agency option assumes an increase in Agency commissions through use of a volume component ($0.15 per bottle in this example) and that the State remains in the wine business. Current commission formula and one at a higher rate for volume are also shown.

[redacted]

APPENDIX B: HISTORY OF LIQUOR CONTROL IN WASHINGTON

Included in the section are:

1. Initiatives
2. Historical Timeline
3. "The Desirability of Continuing Retail Liquor Sales by State Government", Office of Financial Management, 1983. pp. 6 - 12.
4. Previous Studies of Liquor Control Board Operations

Washington State
Initiatives and Referendums on Liquor Control Issues
1914 through 1999

Note: Initiatives submitted to voters are shaded; initiatives approved in shaded and in bold.

1914	Initiative to the Legislature No. 18/1 A Brewers' Hotel Bill The 1915 Legislature failed to take action. Submitted to the voters at the November 7, 1916 general election. Rejected: For - 48,354 Against - 263,390.
	Initiative No. 1 Refiled as Initiative Measure No. 3. **Initiative No. 3 Statewide Prohibition** **Submitted to the voters at the state general election** **Approved: For - 189,840 Against - 171,208**
1916	Initiative No. 24 Brewers' Bill Submitted to the voters at the state general election held on November 7, 1916 Rejected: For - 98,843 Against - 245,399.
	Initiative No. 26 Making the State a Prohibition District No signature petitions presented for checking.
1918	**Referendum No. 10 Bone Dry Prohibition** **Submitted to the voters at the state general election.** **Approved: For - 96,100 Against - 54,332**
	Referendum No. 14A Intoxicating Liquor Insufficient signatures to qualify the measure for the general election ballot
1932	**Initiative No. 61 Relating to Intoxicating Liquors** **Submitted to the voters at the state general election.** **Approved : For - 341,450 Against - 208,211.**
1934	Initiative No. 71 Liquor Control No signature petitions presented for checking.
	Initiative No. 79 Liquor Control No signature petitions presented for checking.
	Initiative No. 80 Liquor Control No signature petitions presented for checking.
	Initiative No. 81 Liquor Control No signature petitions presented for checking.
	Initiative No. 88 Liquor Control No signature petitions presented for checking.
	Initiative No. 95 Liquor Control No signature petitions presented for checking.
1936	Initiative No. 121 Beer on Sunday No signature petitions presented for checking.

1938 Initiative No. 125 Tax on Intoxicating Liquors
No signature petitions presented for checking.

Initiative No. 136 Retail Beer and Wine Licenses
No signature petitions presented for checking.

Initiative to the Leg No. 9 Liquor by the drink
No signature petitions were presented for checking.

1940 Initiative No. 140 Liquor Control
No signature petitions presented for checking.

Initiative No. 148 Liquor Control
No signature petitions presented for checking.

1942 Initiative No. 150 Intoxicating Liquor Sold by the Drink
No signature petitions presented for checking.

1946 Initiative No. 163 Prohibiting the Sale of Beer or Wine by any Person other than the State of Washington
Insufficient signatures to qualify the measure for the general election ballot

Initiative No. 164 Prohibiting the Sale of Fortified Wines
No signature petitions presented for checking.

Initiative No. 165 Sale of Liquor by the Drink
Insufficient signatures to qualify the measure for the general election ballot.

1948 Initiative No. 167 Liquor by the Drink at Licensed Establishments
Signatures were submitted and found insufficient.

Initiative No. 168 Liquor by the Drink for Consumption on Premises where Sold
No signature petitions presented for checking.

Initiative No. 13 Restricting Sales of Beer and Wine to State Liquor Stores
Signatures filed on January 3, 1947. The 1947 Legislature failed to take action, and measure was submitted to the voters in the 1948 state general election.
Rejected: For - 208,337 Against - 602,141.

Initiative No. 171 Liquor by the Drink with Certain Restrictions
Submitted to the voters on in the 1948 general election
Approved : For – 416,227 Against – 373,418

1954 Initiative No. 194 Television Alcoholic Beverage Ads
Submitted to the voters in the 1954 state general election
Rejected : For - 207,446 Against - 615,794.

1960 Initiative No. 205 Authorizing Tavern Spirituous Liquor Licenses
Submitted to the voters in November 1960
Rejected: For - 357,455 Against - 799,643.

1964 Initiative No. 222 Reallocation of Liquor Sales Revenue
No signature petitions presented for checking.

1966 **Initiative No. 229 Repealing Sunday Activities Blue Law**
Measure submitted to the voters in November 1966
Approved: For - 604,096 Against - 333,972

1968	**Initiative No. 242 Drivers' Implied Consent--Intoxication Tests** **Submitted to the voters in November 1968** **Approved: For - 792,242 Against - 394,644**
1972	Initiative No. 261 Liquor Sales by Licensed Retailers Measure submitted to the voters in November 1972. Rejected : For - 634,973 Against - 779,568.
	Initiative No. 262 Minimum age for alcoholic beverage purchases . No signature petitions presented for checking.
1973	Referendum No. 36 Minimum age for alcoholic beverage consumption Measure submitted to the voters in November 1972. Rejected : For – 495,624 Against – 519,491
1974	Initiative No. 290 Liquor control board restructure No signature petitions presented for checking.
	Initiative No. 299 Tax on retail sales of liquor Insufficient signatures to qualify the measure for the general election ballot.
1975	Initiative No. 302 Minimum age for alcoholic beverages No signature petitions presented for checking.
	Initiative No. 305 Minimum age for alcoholic beverages . No signature petitions presented for checking.
1976	Initiative No. 326 Grocery stores sales of spirits Sponsorship of initiative withdrawn May 17, 1976.
	Initiative No. 332 Abolish state monopoly No signature petitions presented for checking.
	Initiative No. 334 Liquor tax No signature petitions presented for checking.
1977	Initiative No. 341 Minimum age lowered for purposes other than for drinking alcoholic? No signature petitions presented for checking.
	Initiative No. 349 Minimum age lowered for purposes other than for drinking alcoholic? No signature petitions presented for checking.
1978	Initiative No. 351 Minimum age for alcoholic beverages. No signature petitions presented for checking.
	Initiative No. 353 Warning labels on alcoholic beverage containers No signature petitions presented for checking.
	Initiative No. 355 Refiled as Initiative Measure No. 356. Initiative No. 356 Alcohol sales restrictions No signature petitions presented for checking.
1979	Initiative No. 361 Minimum age for alcoholic beverages No signature petitions presented for checking
	Initiative No. 365 Abolish state monopoly No signature petitions presented for checking.
	Initiative No. 366 Abolish state monopoly No signature petitions presented for checking.

1980	Initiative No. 377 Abolish state monopoly No signature petitions presented for checking.
	Initiative No. 390 Abolish state monopoly No signature petitions presented for checking.
1981	Initiative No. 405 Refiled as Initiative 406 Initiative No. 406 Abolish state monopoly No signature petitions presented for checking.
1982	Initiative No. 434 Withdrawn and later filed as Initiative to the Legislature #78. Initiative to the Legislature NO. 78 Abolish state monopoly No signature petitions were presented for checking.
1982 (cont.)	Initiative No. 457 Minimum legal age requirements reduced except relating to alcohol? No signature petitions were presented for checking.
1984	Initiative No. 460 Additional tax on liquor No signature petitions were presented for checking.
1986	Initiative No. 484 Refiled as Initiative Measure No. 487. Initiative No. 487 Abolish state monopoly No signature petitions were presented for checking.
1993	Initiative No. 598 Limit alcohol beverage drink sales No signature petitions were presented for checking.
1999	Initiative No. 705 Liquor taxes No signature petitions presented for checking.
	Initiative No. 706 Abolish state monopoly No signature petitions presented for checking.

HISTORICAL TIMELINE

1909	Legislature adopts local option prohibition law allowing local governments to prohibit sale of liquor. Private drinking allowed.
1909 - 1912	Other anti-saloon laws passed restricting women and minors from saloons, limiting Sunday sales, prohibiting wholesalers from holding interest in sales.
1912	Forty percent (40%) of state population live in dry areas
1914	Voters approve Initiative No.3 concerning statewide prohibition. Saloons are closed, manufacture and sale of liquor prohibited. Private drinking is allowed.
1917	US Congress submits resolution to states to amend US Constitution to prohibit "the sale manufacture, or transport of intoxicating liquors".
1918	Voters approve Referendum No. 10, statewide prohibition.
1919	State legislature votes to ratify Eighteenth Amendment in January.
	States ratify Eighteenth Amendment in January allowing nationwide prohibition to go into effect in one year.
	Referendum No. 10 becomes effective in July.
1920	Congress adopts the National Prohibition Act (Volstead Act) forbidding anyone to "manufacture, sell, barter, transport, import, export, deliver, furnish, or possess any intoxicating liquor".
1932	Congress submits resolution to states for repeal of Federal prohibition laws by ratification of Twenty-First Amendment to US Constitution. (February)
	Voters approve Initiative No. 61 in landslide in November repealing statewide prohibition laws. Initiative is considered anti-saloon because it did not provide for the licensing and operation of saloons.
	Most counties eliminate "dry squads". Enforcement of liquor-related crimes no longer exists. Unregulated, liquor flows in the state.
1933	Washington votes to ratify Twenty-First Amendment to US Constitution. (October)
	Governor appoints Liquor Control Advisory Commission.
	Liquor Control Advisory Commission provides Governor with report including draft legislation . (November)
	Governor calls special session of legislature to deal with state liquor control issue. Twenty-First Amendment to US Constitution becomes official. (December)

Legislature adopts The Washington State Liquor Control Act (Steele Act).
The Steele Act:

- Allows cities, and counties outside the cities, a local option to prohibit public drinking.
- Gives to the state complete power to license the manufacture, wholesaling, retailing and distribution of liquor
- Tries to separate the wholesale function from the retail function by denying one to have an interest in the other
- Creates a three member liquor control board
- Prohibits public drinking consumption of hard liquor
- Authorizes state owned and operated liquor stores for all liquor beverages over four percent (4%) in alcohol content
- Requires individual purchasing permits for those eligible to purchase from state stores
- Gives the board authority to license grocery stores to sell packaged beer and wine
- Gives the board authority to license restaurants, and hotels to sell beer and wine by the glass, in a ratio of food/beverage sales
- Gives the board authority to license taverns to sell beer by the glass (wine is added in an early amendment)
- Proscribes any signs or advertising that use the words *bar, barroom, or saloon*
- Provides for monopoly profits to be divided equally between state general fund and counties (after 1935, cities included)

1934 Governor Martin greets new Liquor Control Board (January 23)

First state liquor stores opens in March. "Free enterprise" liquor quickly disappears.

Restaurants and hotels sponsor Initiative No. 79 to repeal the Steele Act. No signature petitions presented for checking.

1935 Liquor Control Board submits bill to the Senate Liquor Control Committee to authorize liquor by the drink in hotels and restaurants. Bill dies in committee.

1937 Legislature increases LCB profit markup from 25 per cent to 35 per cent.

1938 Legislature increases LCB profit markup from 35 per cent to 40 per cent.

1939 Liquor Control Board enforcement division established.

1940 Legislature increases LCB profit markup from 40 per cent to 45 per cent and increases the cities and counties distribution of profits to 65 per cent.

Legislature increases state tax on LCB sales to 13 per cent.

1941 Wartime industries brings wave of migrants. State population increases 40% during decade.

LCB reports increased public consumption of hard liquor, public drunkenness, as well as, shortages, black markets and bootleggers

1942 Federal War Production Board orders all distilleries to convert to industrial alcohol and produce no beverage alcohol after October 1942.

LCB issues rationing card for each individual purchasing permit, allowing permit holder to buy one gallon of whiskey per week.

To avert a crisis of supply and demand, LCB partners with Oregon Liquor Control Agency to purchase distilleries in Kentucky. Obtains half-million cases of bourbon.

1946 Liquor Control Board reports 599 raids and 705 arrests by Enforcement Division. "Bottle clubs" are a "major problem"

1948 Enforcement of liquor laws in private clubs is a major problem. Voters approve Initiative No. 171 to allow hotels, restaurants and clubs to sell hard liquor by the drink in special "rooms". (November). Measure considered anti-saloon.

Class H licensees must sustain a food-to-drink ratio, in gross sales, of 60/40.

Revenue from new licenses is earmarked for medical research at state universities to combat alcoholism.

LCB provides alcohol education with a plan "to combat the purchase and use of liquor to minors" and through public information officer speaking for moderation

1954 LCB changes Class H licensees required food-to-drink ratio to 50/50.

1955 Liquor Control Board has issued less than half the liquor by the drink (Class "H") licenses authorized by Initiative No. 171.

1957 Legislature requires LCB to put $250,000 each biennium into an alcoholism program to be conducted by the state Department of Institutions.

1966 Voters approve Initiative No. 229, repealing Sunday "Blue Laws". (604,096 for; 333,972 against).

1967 LCB allows drinking on Sundays, limiting hours from 2 P.M. to 10 P.M. (Class H)

1968 Voters approve Initiative No. 242 to require drivers to take an intoxication test if arrested for driving under the influence.

1969 Legislature passes "California Wine Bill" allowing licensed wholesalers to carry out-of-state wines, which licensed retailers can buy at wholesale. Domestic wineries share of state market falls from 60 percent to about 20 per cent in a few years.

1970 LCB extends drinking on Sundays limiting hours from 2 P.M. to 12 P.M. (Class H)

1971 LCB lowers Class H licensees required food-to-drink ratio to 40/60.

1972 Initiative 261 to take liquor out of state control defeated by vote of the people.

Sidewalk service, hotel and motel room service, beer in race track stands permitted.

Permits authorizing retailers to take delivery of beer and wine at wholesaler's premises permitted.

1973 In support of growing domestic wine industry, Governor signs bill increasing tax on out-of-state wines from 10 cents a gallon to 75 cents and eliminating the sales tax.

Law amended to reduce legal drinking age to 19 by state legislature; referendum in November general election passed by vote of the people, keeping legal age at 21.

1975 Board adopts administrative rule to govern suggestive, lewd or obscene conduct on liquor license premises.

1976 LCB drops all Sunday restrictions for Class H licensees.

Advertising regulations amended, including permitting direct reference to liquor in advertising.

1977 Governor sponsors bill to abolish Liquor Control Board and create Alcohol Administration Board of three to be appointed by the governor. Bill dies in committee.

Class H restaurants required to maintain certain minimum food requirements. LCB officially adopted 40/60 food/liquor ratio in administrative ruling.

1978 Breweries and wineries permitted to apply for restaurant licenses and to allow consumption of wine and beer of their production in parks and picnic areas adjacent to and held by respective brewery and winery.

1979 Faculty center at University of Washington issued a liquor license; previously sales on campus prohibited.

1980 Initiative petitions circulated to end the state's retail monopoly and broadly liberalize licensing practices. Both fail to attract sufficient signatures to appear on the ballot.

1981 Legislature amends RCW 66.24.010(9) to prohibit Board from issuing retail liquor licenses within 500 feet of a church or school.

Wine purchased with a meal from a hotel, restaurant or club may be removed from the premises by the patron recorked or recapped in its original container.

1982 Rule adopted to prohibit "B-Girl" and "Taxi Dancing" on licensed premises.

Malt beverages one-half of one percent to eight percent alcohol by weight may be sold in private sector. Above eight percent considered "strong beer" and must be sold in state stores.

Certain types of advertising permitted in state stores for first time.

1983 First agreement between Board and Indian tribe (Muckleshoot) concluded, authorizing tribes as liquor vendors and sell liquor to non-tribal members.

Office of Financial Management conducts study on privatizing retail liquor sales at request of Governor. Following receipt of OFM report titled "The Desirability of Continuing Retail Liquor Sales by State Government"; Governor decides not to pursue liquor sales privatization, nor to conduct additional analysis of the issue.

Lottery tickets sold in state liquor stores for the first time.

1984 Advertising of liquor for on premises consumption "2 for the price of 1" prohibited.

1985 Legislature requires regulation of promotional activities of liquor representatives on college and university campuses.

Board enters parallel market, acting as its own importer for foreign manufactured products, bypassing the traditional "authorized U. S. importers" of foreign products.

1986 Initiative 487 filed to remove Board from the retail and wholesale functions and turn these functions over to the larger grocery stores. Supporters fail to get required number of signatures. This was the seventh attempt to remove the Board from the sale of liquor since 1972.

Class H licensed hotels allowed to sell liquor by the bottle to registered guests with specific conditions.

Legislature prohibits Board from controlling vulgar and profane "blue" language in retail establishments where there is not a danger of disorderly conduct being provided by such language.

Grocery stores permitted to use employees age 18 and older to stock shelves with alcohol beverages

Retailers required to price liquor at 10 percent over acquisition cost

Retail wineries may sell liquor products of their own production.

Legislation passed to reduce Board members' terms of office from nine to six years, at conclusion of existing Board members' terms.

1987 Wholesalers permitted to extend 30 days credit to licensed retailers on non-liquor food items.

Class H (restaurant) or class C restaurant licensees permitted to allow customers to bring personal wine into premises for consumption.

1988 Retailers permitted to sell liquor at not less than acquisition cost.

Food sales required to qualify for class H license lowered to 30 percent food/70 percent liquor.

1989 RCW 66-44-316 allows professional musicians eighteen years and older to enter and to remain in liquor licensed establishments during and in the course of their employment as musicians.

1990 Permitted a private club operating under a national charter which has existing like club licenses already within the state to forego the one year operating requirement prior to applying for a liquor license.

1992 Domestic wineries and breweries may serve their own products and products not of their own production without charge on winery or brewery premises. Wineries or breweries are required to obtain appropriate licenses to sell beer, wine or spirits on winery or brewery premises that are not of their production.

1993 Legislature authorizes Board to enforce tobacco sales/purchases laws on persons under age 18. Board enters into an interagency agreement with the Department of Health obtaining funding for four FTE's to help enforce tobacco laws.

1995 Board develops legislation to privatize retail liquor sales by selling franchises to private bidders to operate a fixed number of private retail outlets. SB 5490, introduced as a Governor request bill, has one hearing and dies in committee.

Legislation requires mandatory server training for all on-premises licensees' employees who sell and/or serve alcoholic beverages.

Legislation approved to allow up to two liters of spirits or wine and/or 288 ounces of beer to be brought into the state for personal use.

Legislation approved removing liquor contract agency managers from jurisdiction of state personnel system, following ruling by Internal Revenue Service that contract agency managers are independent contractors, not state employees.

1996 Legislation approved for a period allowing use of personal credit cards to purchase liquor from state's retail system.

1997 Legislation approved creation of a maintenance and construction fund for proposed new distribution center. Interest from fund will be used to help pay construction costs for center.

1998 Legislation approved increasing penalties for supplying liquor to minors and possession of liquor by minors to a gross misdemeanor.

Legislation approved stating that no person apparently under the influence of liquor may purchase or consume liquor on any premises licensed by the Liquor Control Board, establishing financial penalties for violations.

1999 Legislation approved authorizing Liquor Control Board to allow use of credit and debit cards in contract agency outlets for purchase of alcoholic beverages.

2000 Appointment of an Administrative Director to oversee day-to-day operations of the retail, licensing, enforcement, and support functions of the Agency, including hiring and firing of Agency staff.

The following is an excert from the 1983 Office of Financial Management report, "The Desirability of Continuing Retail Liquor Sales by State Government".

III. HISTORICAL BACKGROUND OF WASHINGTON'S LIQUOR LAWS

Early History

In 1933, the legislature adopted the Washington State Liquor Control Act, commonly referred to as the Steele Act. The Steele Act modeled Washington's liquor control system after the system in operation in British Columbia. The system has not been substantially changed since its creation.

A brief summary of the historical events leading to the passage of the Steele Act, and its impact since, is necessary to provide a perspective for the examination of the state's present role in retail liquor sales.

Washington's strict liquor control system did not just happen by accident. It is the result of very deliberate actions taken by the state legislature after a long and bitter struggle lasting over most of the state's history.

The following historical synopsis of the state's liquor issues was developed from a book written by Norman H. Clark entitled "The Dry Years: Prohibition and Social Change in Washington." This book, published in 1965 and 1988, gives an excellent detailed account of state social, economic, and political considerations leading to the adoption and implementation of the Steele Act.

Saloons in the 1800's

The fight to obtain control of the flow of liquor has been one of the most turbulent in the political life of Washington. At the center of this controversy were the old time saloons and the people who operated them.

During the early days of our state, saloons were honorable institutions that satisfied a social need. Saloons offered a release from the drab, monotonous, agrarian life. They were the poor man's club and a center of charity. It is a fact that many times men from the ranches, logging camps, and mines were lodged and fed by saloon keepers during troubled times. Some saloons did contribute to crime and poverty. However, drunkenness was not a major problem and the saloon was generally accepted by a majority of the citizens.

In the 1880s, major changes began to occur with the completion of the transcontinental railroads. In 1880, there were but 289 miles of railroad track in Washington and few saloon problems. However, during the 1880's, over 2,000 miles of track were laid and their intercontinental connections completed. Almost another 1,000 miles of track were laid in the 1890s. Due to railroad expansion, Washington became more and more accessible. The state experienced enormous population growth.

Before the railroads came to Washington, the saloon was an urban institution. Brewing on a large scale was impractical beyond urban centers of population because draft beer was never pasteurized and had to be handled quickly.

However, with the coming of the railroads, urban brewers began looking beyond the limitations of their beer wagons. Brewers encouraged the cultivation of saloons along the railroad rights-of-way. Railroad refrigeration cars were put into use and the "crown" bottlecap allowed brewers to ship bottled beer in large quantities.

Saloon Competition of the 1890's

During the early 1890's, the brewery competition took on new dimensions. The large brewers in St. Louis and Milwaukee began establishing themselves in the Northwest. Foreign investors began buying up brewery properties. Local brewers, understanding the nature of survival, entered the competition in a frenzy.

The principal feature of the brewery business in the 1890s was the rush to open more saloons or to buy up the old ones. Brewers loaned money for licenses, fixtures, and stock while encouraging many irresponsible persons to become saloonkeepers. Many brewers included hard liquor in the stock they provided. Almost all of the saloonkeepers were in debt to a brewery and had to hustle to attract customers to pay their bills. Unrestrained, the saloon competition was ruthless.

Saloons were open hours a day, seven days a week. Bartenders worked in three shifts, liquor was sold to minors, men were sold more than they needed, drunks were served and then "rolled", and prostitution was a problem. If a person cashed his paycheck in a saloon, he stood very little chance of taking any money home. It was common for saloons to be hangouts for prostitutes, pimps, and criminals. The hustling for the dollar even led some saloon men to drug their customers. Thus, resentment toward saloon empire building increased as brewery competition increased.

Early Prohibition Laws

These conditions led to the prohibition laws of the early 1900s. In answer to a growing and militant segment of the state's population, the legislature adopted a local option prohibition law in 1909. It allowed local governments to prohibit the sale of liquor, but it did not prohibit private drinking. Individuals could carry up to one gallon of liquor or a case of beer into a dry city or county, and the manufacture of liquor or beer could take place in a dry area. Other new anti-saloon laws were soon passed by the legislature. Laws restricted women and minors from saloons and Sunday sales were limited. Wholesalers were prohibited from holding an interest in saloons, and whiskey less than four years old could not be sold.

In 47 local option elections held in 1909, fewer than a dozen communities voted to stay wet. By 1912, the Anti-Saloon League estimated that about 40 percent of the state's population lived in the dry areas. However, by that time, it became apparent that the only thing they had changed was the mode of drink. The saloons had been replaced by the bootlegger and the speakeasy. Dry islands were not practical in an ocean of liquor.

Initiative and Referendum Law of 1912

The demise of the local control option law became a reality in Washington State as a result of the new political power provided the public in the initiative and referendum law of 1912. Initiative No. 3 concerning statewide prohibition was the first state initiative measure to be voted on. It was submitted to the voters in November 1914 and was approved by a vote of 189,840 (52.5 percent) "for" to 171,208 (47.5 percent) "against".

All saloons were closed and the manufacture and sale of liquor was prohibited. However, the state was not "bone dry." The law allowed private drinking. An individual could import two quarts of hard liquor or twelve quarts of beer into the state each twenty days. The individual had to have an importer's license obtained from the county auditor. However, after three or four months of adjustment, the market for illegal liquor began to expand again. Moonshine was plentiful and many undesirable individuals began moving into the bootleg business.

The 18th Amendment (1919)

Anti-saloon pressure increased and on December 22, 1917, the United States Congress submitted a resolution to the states to amend the U.S. Constitution (Eighteenth Amendment) to prohibit "the manufacture, sale, or transport of intoxicating liquors." The state legislature voted for ratification in January 1919. However, prior to legislative ratification of the Eighteenth Amendment, the citizens voted for their own liquor prohibition law.

Referendum No. 10, "Bone Dry" state-wide prohibition, passed on November 5, 1918, with 96,100 votes (63.8 percent) "for" to 54,322 (36.2 percent) "against''. By January 16, 1919, the required 36 states had ratified the Eighteenth Amendment to the United States Constitution allowing nationwide prohibition to go into effect in one year. However, Washington really dried up in July 1919 when Referendum No. 10 became effective.

The Volstead Act (1920)

The Eighteenth Amendment was given its teeth by Congress in January 1920 with adoption of the National Prohibition Act, commonly called the Volstead Act. The act defined intoxicating beverages as those containing over 0.5 percent alcohol. This provision was designed to "wipe out" the United States liquor industry. The law forbade anyone to "manufacture, sell, barter, transport, import, export, deliver, furnish, or possess any intoxicating liquor. First offenses were liable to fines as high as $1,000 and to imprisonment for as long as six months. Congress handed all the problems of enforcement to the United States Treasury Department.

After 13 years of prohibition it became apparent that the "great experiment" would not work. The saloons had been abolished but the attempt to regulate morality outside the saloons had not worked at all. Prohibition not only did not stop liquor traffic, it increased it. The perverse assertion of the right to drink liquor developed into patterns of excessive drinking which prevailed in a large number of social groups, including many of the better educated and more responsible members of every community. Bootlegging, hijacking, and speakeasys flourished, together with other related crime. There was a general contempt for the law. Federal officials charged with enforcement were arrogant and often corrupt. Local officials, both honest arid dishonest, looked the other way. In short, the cure had become more dangerous than the disease. By 1932, the repeal of prohibition was the big issue of the day.

The 21st Amendment – Repeal of Prohibition (1933)

Finally, Initiative Measure No. 61 was filed in 1932. It proposed the repeal of state-wide prohibition laws. However, it was considered an anti-saloon measure in that it did not provide for licensing and operation of saloons. This initiative won by a landslide during the general election of November 1932, with 341,450 votes (62.1 percent) "for" to 208,212 (37.9 percent) "against." More people responded to the prohibition repeal measure than any other issue of the time.

In February 1932, the United States Congress approved a resolution and submitted it to the states for repeal of Federal prohibition laws by ratification of the Twenty-First Amendment to the United States Constitution.

In November 1932, a total of 698,294 Washington citizens voted for delegates to the state repeal convention. Wets were selected by more than two to one. The delegates met in October 1933 and voted to ratify the Twenty-First Amendment. The requisite number of states ratified repeal in a remarkably short time (288 days).

State Liquor Control (1933)

Liquor control was returned to the states along with all its problems. The people wanted liquor to be available, but did not want to return to the saloon days with the inevitable social and political corruption that would follow.

The day after the state liquor laws were repealed at the polls in 1932, most counties eliminated their "dry squads". City police lost all interest in enforcement and only a small force of Federal agents remained to control liquor. No one pretended that liquor was not for sale everywhere. Road-houses were run wide open. Bartenders served drunks and minors. Restaurants sold beer across the streets from schools. The enforcement of liquor related crime did not exist. Unregulated, liquor flowed in Washington again.

Establishment of the Liquor Control Advisory Commission (1933)

Governor Martin wanted action immediately and appointed a seven-member liquor control advisory commission. The commission liked the British Columbia system and provided the Governor with a report complete with draft legislation on November 7, 1933.

In summary, the commission's findings were:

1. Liquor control systems fall into two broad classes:
   a. Private enterprise under state license with strong governmental supervision.
   b. Complete state monopolistic control

"The Desirability of Continuing Retail Liquor Sales by State Government", Office of Financial Management, 1983. pp. 6 - 12.

2. State control through state owned dispensaries has had the most substantial success at liquor flow control primarily due to the private profit motive being eliminated from the retailing of "hard liquor".

3. A state liquor monopoly should be established, the dominant policy of which should be control, looking toward social betterment, with revenue and profit of secondary importance.

4. Temperance is best promoted by making hard liquor available only through state owned dispensaries, but permitting widely licensed selling of mild beer and light wines.

5. The state should not share liquor control but should share liquor related income with the counties and municipalities.

6. A full time liquor control board of three members should be established. Members should have adequate salaries, reasonable tenure, and freedom from political influence.

7. <u>The major weakness of this system could be the desire for excessive revenues.</u>

Specifically, the commission recommended: (1) the sale of beer or wine by the glass where meals are served; (2) the sale in private retail stores of beer and wine for home consumption; (3) the sale of hard liquor in state owned stores; and, (4) the sale of hard liquor at low prices to eliminate bootlegging.

Upon receiving the report, the Governor immediately called a special session of the legislature on December 5, 1933, specifically to deal with the state liquor control issue. This was the same day that the Twenty-first Amendment to the United States Constitution became official.

The Steele Act (1933)

After only a month of debate, the legislators adopted the Washington State Liquor Control Act (the Steele Act), a modern anti-saloon bill. The Steele Act created: (1) a three member liquor control board appointed by the Governor for nine years, but removable only by court action; and (2) authorized state owned and operated retail stores for all liquor beverages over four percent alcohol content. Prices of liquor were to be low with profits and taxes going to the state general fund and to the cities and counties. Under the Steele Act, restaurants, clubs, and dispensaries could get licenses to sell beer and wine but the licenses were subject to local option. However, there would be no public drinking of hard liquor.

The state liquor control system was a moderate compromise between complete prohibition and unregulated repeal. The crucial purpose of the system is described by the commission's modern definition of temperance:

"The commission is approaching the problem of liquor control and has accepted as substantially sound the view that the solution of the liquor control question is not prohibition, which has proven a complete failure and it is not the open saloon, to the return of which public opinion is strongly opposed, but that true temperance is best promoted by making widely available intoxicating beverages of low alcoholic content such as beer and light wines, but limiting so far as humanly possible the promotion of the sale of intoxicants of heavy alcoholic content through making them available in government dispensaries... The sale and drinking of hard liquor in public places should be prohibited."

First State Liquor Stores (1934)

The first state liquor stores were open by March 31, 1934 and free enterprise liquor quickly disappeared. People were generally happy with the new state liquor laws and their administration, and they made no significant effort to modify the Steele Act until after World War II.

Liquor by the Drink (1948)

The laws allowed fraternal or social clubs to serve drink mixers to members who supplied their own bottles. By 1946 the board was reporting that the "bottle clubs" had become a major problem of enforcement. The policing of these clubs did not enjoy much public support. As a result, in 1948, Initiative No. 171 was drawn to allow hotels, restaurants and clubs to sell hard liquor by the drink in special "rooms". Revenues from the new Class H licenses were marked for medical research at the state universities.

The measure was approved by the voters in November 1948 with 416,227 votes (52.7 percent) "for" to 373,418 (47.3 percent) "against". This was no overwhelming margin. An analysis made it quite clear that the winning margin was contributed by the districts where war workers had flooded into the state during the war years and remained.

Regulation of these "rooms," or cocktail lounges, prohibited sales to intoxicated persons, prohibited gambling, and even prohibited a person moving a drink from one table to another. The words "saloon" or "bar" could not be used. Only the word "room' with a proper noun could be used to direct a guest to the cocktail lounge. By 1955, the State Liquor Control Board had issued less than half of the liquor by the drink licenses authorized by the initiative.

Little Activity Since 1948

Since 1948, the citizens of Washington have been relatively quiet on the liquor issue and seem to be content with present controls. Several attempts were made through the initiative and referendum process to allow the drinking age to be reduced to 18 or 19, and to allow hard liquor to be sold in private retail grocery stores.

In 1968, the voters approved Initiative 242 by a margin of over two to one to require a driver to take an intoxication test if arrested for driving while under the influence of alcohol. Beginning in 1972, several attempts

"The Desirability of Continuing Retail Liquor Sales by State Government", Office of Financial Management, 1983. pp. 6 - 12.

at initiatives (refer to Appendix A) of this nature were never filed or lacked the required number of signatures. The latest effort was Initiative 406, filed in the spring of 1981, which did not obtain the signatures required.

Lowering the minimum drinking age from 21 to 18 or 19 was also a significant issue during the 1970's. In 1973, Referendum No. 36, which would reduce the minimum age to 19 failed, 495,624 (49.3 percent) 'for" to 510,491 (50.7 percent) "against". Two additional attempts to lower the age by initiative in 1975 and 1978 failed to obtain the signatures needed.

There has been little general public interest in liquor issues since 1948 except by the special interests involved.

The overall history of the liquor control issue in the state of Washington can be classified into two phases. The pre-Steele Act era which can be described as turbulent and the post-Steele Act adoption era which can be described as quiet. Strongly enforced state operated liquor control is in place and there does not seem to be enough general public interest to accomplish major changes to a system that is working. Indeed, public sentiment appears to be moving in the opposite direction--toward more restrictions on liquor sales and reduced public consumption.

Drunk driving, youth alcoholism, and the staggering national health problems associated with liquor consumption are issues that are issues that are of significant concern to the public at this time.

"The Desirability of Continuing Retail Liquor Sales by State Government", Office of Financial Management, 1983. pp. 6 - 12.

APPENDIX J: RETAIL STUDIES

Included in the section are:

1. Retail Operations
   - Deloitte Touche Report Discussion
     - Retail Business Plan Table of Contents
     - Operations Review – Highlights
     - Deloitte Touche Recommendations
   - Task Force Working Group report
   - Customer Opinion about Liquor and Wine Stores: Results of a 1999 Survey of WA State Residents

2. Retail Wine Sales
   - Letter from Washington Food Industry
   - Letter from Washington Food Industry – Notes and Discussion
   - Letter from Hyatt Vineyards
   - Spokane Daily Planet article
   - 1999 Liquor Sales data
   - Washington wineries with sales to the LCB
   - Chart of top 100 selling wines
   - Wine bottle – state
   - Wine bottle - private

Washington State Liquor Control Board:
Retail Business Plan – Final Report (Deloitte & Touche)

TABLE OF CONTENTS

Operations Review - Highlights

- Over the last two decades in Washington State, consumption of alcoholic beverages has declined, the adult population has increased significantly and liquor retail outlets have declined.

- According to the Washington State University survey, the direct retail customer in Washington State reports good satisfaction levels with customer service, outlet location and availability. In contrast, wholesale customers appear to be less satisfied with customer service.

- Operational metrics such as inventory turnover, shrinkage and product availability appear to be consistent or better than industry averages where data was available for comparison.

- The legislative appropriation of funds for LCB operations is a barrier to the LCB's ability to operate as a retailer with appropriate reinvestment in its operations.

- Given the positive response from the customer survey and the high retention of retail staff, there does not appear to be a need for additional retail staff at the store level. However, a better division between wholesale and retail operations combined with customer service and product training could result in considerable improvements for the wholesale customer and a decrease in the perception among retail employees of being "understaffed".

- When benchmarked against other specialty retailers and the control states in the areas of procurement, inventory management and distribution, the LCB typically performed as good or better where data was available for comparison. While there are still opportunities for improvement, planned technology investments should further enhance operating efficiencies. The most significant gap involves fulfillment of wholesale customer orders, from product selection and ordering to delivery.

Deloitte & Touche Recommendations

Store Siting and Development

- Perform additional analysis for outlet location
- Name LCB cross-functional team to address store development strategy

Store Staffing and Training

- Add new staff for new outlets only
- Add 1 new District Manager to support existing stores
- Add additional District Managers as appropriate for new outlets
- Institute customer service and product training in stores
- Develop a task force to work with wholesale customer representatives
- Continue regular surveys of direct retail customers

Procurement, Inventory Management and Distribution

- Leverage data marts
- Expand the Vendor Managed Inventory Program (VMP)
- Implement electronic data interchange (EDI)
- Track and monitor key distribution performance measures

Wholesale and Special Orders

- Consider consolidating order fulfillment of wholesale orders through select locations
- Centralize special order process through a website or customer service help desk

Organizational Structure

- Continue efforts to appoint an administrative director

Information Technology Infrastructure

- Create a strong Internet capability to further improve processes
- Consider the purchase of a Point Of Service (POS) system that is centered on a Personal Computer (PC) and easily integrated to planned Merchandising Business System (MBS) and Warehouse Management System (WMS)

Governor's Task Force on Retail Sales of Alcohol
Retail Working Group Meeting
Seattle WA, August 16, 2000
Meeting Notes

The mission of the Liquor Control Board is to serve the public by preventing misuse of alcohol and tobacco through education, enforcement, and controlled distribution.

The Task Force retail working group discussed retail sales "mission" in the context of "minimizing the inappropriate use of alcohol while at the same time serving those people who uses it appropriately."

The LCB is at a decision point as it faces the requirements to modernize its retail operations. Major investments are proposed to the Board's information systems as well as major "process" changes.

Customer surveys conducted by the Liquor Control Board (1999 WSU study) and the United Food and Commercial Workers Local 1001 (1999 Garner Group Poll) both gave high marks to the customer service provided by Washington State retail liquor stores. The information systems, processes and procedures that support the retail sales operations have been in place for many years and are in need of improvement. The Task Force working group discussed retail operations, including the adoption of the recommendations of the Deloitte Touche Report. These recommendations are attached to these meeting notes.

Some research was conducted on other control state retail practices. The states contacted included Pennsylvania, Utah, Idaho and Virginia. Measures to compare state retail to private retail operations were discovered. The control state mission – to prevent misuse of alcohol while making it available to their citizens – focused emphasis on productivity of employees (volume measures), availability of the product that the customer came to purchase, and provision of a customer friendly place to shop. Further research can be done in Pennsylvania and Utah regarding merchandising, special ordering, education and employee training.

As part of the discussion, the working group proposed that the Task Force consider recommendations in the following areas to improve retail operations:

- **Serving the wholesalers - How can the LCB better serve them?**
  This was a Deloitte Touche recommendation

- **Accountability and performance - How can retail performance be measured and evaluated at the store, agency, district and LCB levels? What should be accountable for at the store level?**

  Performance standards and accountability should include:
  1. Quality (fresh, absent defects, visually appealing - quality products)
  2. Cleanliness
  3. Stock level
  4. Signage and pricing
  5. Customer service

- **Pricing policy – How can revenue be increased without an adverse impact on customer?**

  In the state/private competitive area of wine sales, the state is perceived to have a competitive advantage through pricing policies/procedures. An analysis of the pricing of the top 50 selling wines in LCB retail stores compared with private retail pricing of the same wines indicated a significant profit advantage to the state. Pricing of forty-two of forty-eight wines provided a higher profit to the state in the range of $0.08 to $1.63 – average of $0.33. A major difference between private retail and state retail pricing is the point where tax is included in the price - before/after markup. The state may realize additional revenues while creating a more "level pricing playing field" by pricing wine at the private retail level. The percent markup is not prescribed by legislation.

- **Tracking out-of-stock items.**

  Out-of-stocks are tracked in the warehouse but not in store. Accountability should be increased at the store level. Current record keeping systems are not capable of tracking at the store level.

  Special order system improvements are also needed

- **Improved merchandising**

  Merchandising is defined as planning and control of goods or services to provide effective product development and to ensure the proper commodity at a place, time, price, and quantity conducive to profitable sale. For the retailer or wholesaler it includes selecting styles, colors, and sizes. The price is usually determined to sell merchandise promptly and at a satisfactory profit. [1]

  There is a distinction between merchandising and marketing, selling, etc. Good merchandising incorporates:
  - Education
  - Encouragement
  - Attitude
  - Product availability
  - Store appearance

  For the LCB this should result in:
  - Improved displays – in concepts, consistency and implementation
  - More information resources available to stores and customers including product reviews, vintage charts, etc.
  - Increase store employee knowledge of product
  - Increased use of technology, e.g. Internet
  - Improved procedures for meeting standards

  Further insight should be obtained on the differences in merchandising practices among control states, e.g. Oregon, Idaho ...

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- **Criteria for retail shelf space allocation. What value is received from shelf management?**
  Managing for value. What are the criteria? Benchmarks? Consistency in application? Wine hub stores are based on demographics. Wine displays are managed at the local store level - spirits are managed from Olympia. There are some rough indicators of specific product sales but not sophisticated

- **Additional store employee training**
  1. Training in control practices
  2. Product Training

- **Use of Intermittent employees**
  The working group expressed a need to better understand the LCB practices regarding the cost and use of intermittent employees.

- **Effective funding mechanism for the LCB. How can profits be reinvested into improvements in the retail system?**

  Is it necessary to reinvest profits in a control system? What needs aren't being met? Where does the return on this investment come from? Are there needs to improve efficiency and/or effectiveness?

  Criteria for additional investment should be benefit to the customer or bringing more dollars to the bottom line at the end of the day through business efficiencies and reduction of operating costs.

  The retail working group discussed this topic at some length.

  - Is selling more product counter to the mission of the LCB or is it appropriate to increase sales to meet unmet demand of those who use it appropriately?
  - If the state has a monopoly in spirits and satisfied customers, where are improvements needed?
  - If we are about to create a retail system that is the equivalent to a private system - and spending money - why doesn't it become a private system?

Participants:
Governor's Task Force on Retail Liquor Sales

- Bernie Dochnahl, Task Force Chair
- Patty Genova, Washington Distillers Association
- Theresa Hancock, Contract Liquor vendor, Funny Farm
- Mary Kurcaba, WPEA, Manager, Liquor Store # 104
- Lyn Tangen, Washington Wine Institute
- Kevin Weatherill, Brown & Cole Stores
- Bob Archey, Roundtable Associates

Liquor Control Board

- Gary Ferko, Director Product & Retail Services, WSLCB
- Gary Thompson, Product & Retail Services, WSLCB
- Fred Romero, Director, Policy, Legislative & Media Relations, WSLCB

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STATE OF WASHINGTON
WASHINGTON STATE LIQUOR CONTROL BOARD
3000 Pacific Ave SE • PO Box 43075 Olympia WA 98504-3075 • (360) 664-1774

Customer Opinion About State Liquor and Wine Stores: Results of a 1999 Survey of Washington State Residents

In August 1999, the Liquor Control Board contracted with the Social & Economic Sciences Research Center of Washington State University to gauge customer opinion concerning the state's liquor retail system. The purpose of the survey was to identify the level of service that is expected by state residents and determine their satisfaction with specific aspects of the state's retail liquor and wine stores .

This random sample survey was conducted throughout the state with 1,901 state residents who were over 21 years of age and who had purchased alcohol in the last year. The margin of error on these statewide results is 2.3 percent.

The survey results show that the overall level of customer satisfaction with state retail liquor and wine stores is high. Specific questions about customer service, product availability, location, convenience and safety, all scored consistently high.

In fact, a recently concluded independent examination of the Liquor Control Board's retail sales operation by Deloitte & Touche complimented the Board for "performing an extensive and objective assessment of retail customer satisfaction, and scoring so highly in this area."

The following results are a summary of the survey. If you would like a complete copy of the survey, contact Gigi Zenk, Liquor Control Board Communications Coordinator at (360) 664-1774.

Convenience and Safety of Stores

The majority of respondents who patronize liquor stores found location and days of operation convenient.

Are the days of the week that the State liquor stores operate convenient for you?
81% Indicated yes

Is the store you typically visit conveniently located for you?
90% Indicated yes

Was the parking adequately lit?
91% Indicated yes

Did you feel safe parking at the store?
97% Indicated yes

Are the store hours convenient for you?
71% Indicated yes

Was the parking outside the store adequate?
87% Indicated yes

Was the outside of the building clean and well maintained?
97% Indicated yes

Customer Service

Nearly three quarters of respondents thought the quality of service from state liquor stores should be about the same or higher than that received from private retailers selling beverage alcohol.

The stores interior was attractive.
80% Agreed

Did a staff member greet you as you entered the store?
51% Indicated no

Staff served you in a courteous manner.
76% Strongly Agreed
18% Somewhat Agreed

The staff were friendly.
70% Strongly Agreed
22% Somewhat Agreed

Did you make a purchase?
98% Indicated yes

Minutes acceptable to wait in line?
68% 3-5 minutes
19% 0-2 minutes

The interior of the store was clean.
82% Strongly Agreed
16% Somewhat Agreed

The staff were helpful.
65% Strongly Agreed
25% Somewhat Agreed

Staff were professional.
95% Agreed

The staff were knowledgeable about products.
62% Strongly Agreed
31% Somewhat Agreed

How many minutes did you wait in line before making your purchase?
80% waited 0-2 minutes
17% waited 3-5 minutes

Overall, how satisfied were you with the service received?
66% Very Satisfied
29% Somewhat Satisfied

Product Availability

It was easy to find the items you were looking for.
91% Agreed

The store carried enough brands or varieties of wine to suit your needs.
53% Strongly Agreed
27% Somewhat Agreed

The store had an adequate selection of spirituous liquors.
68% Strongly Agreed
23% Somewhat Agreed

Did you find the products you were looking for?
86% Indicated yes

October 25, 2000

To: Retail Liquor Sales Task Force Members

From: Doug Henken
Washington Food Industry

Thank you for allowing me to provide testimony at the October 16th public hearing in Spokane regarding our Association's position on wine pricing equity. As you heard from my testimony and many others', the Washington Food Industry believes that beer and wine sales in the State of Washington should be the exclusive function of the private sector. It is inappropriate for the state to be engaged in the sale of a product in competition with the business community.

Several statements were made during the public hearings to which I would like to respond on behalf of WFI's members. I would also like to restate some of the key points of WFI's position and address some concerns that were raised by the public.

(1) Concern: Small wineries will be negatively affected if wine sales are the exclusive function of the private sector.

Response: Under the current structure, grocers aren't competitive with liquor stores' Washington wine prices. As a result, it is counter productive to expend significant funds on advertising and special promotion shelf space for Washington wines. However, if wine sales are the exclusive function of the private sector, the whole face of Washington wine marketing in grocery stores will change. It is likely that Washington wines will be heavily promoted in our members' stores, and we'll work with the Washington wine industry and our members to encourage this change.

(2) Concern: Is the grocery industry capable of selling alcoholic beverages responsibly?

Response: Yes. In the past, the liquor control board has categorized their liquor compliance statistics by type of licensee (i.e. grocery store, convenience store, liquor store, restaurant, tavern, etc.). When WFI requested that information prior to the Task Force public hearings, we were told the agency does not categorize that information. However, past statistics indicated that the grocery industry had one of the highest compliance rates for alcohol sales. Perhaps the LCB should continue to categorize their compliance checks and provide that information to the Task Force.

(3) Question: If the state stores simply raised their prices, wouldn't that solve the problem?

Answer: No for two very good reasons. One, this state agency is not only our competitor but it is also our regulator. This two-headed function of the LCB establishes barriers to effective communication for enforcement from the start. Consider the fact that the same agency and primarily the same private sector group are involved in the sale and enforcement of tobacco products. However there are two major differences. First, the LCB does not sell tobacco products and compete unfairly with the private sector. Two, the sole focus of the LCB is enforcement and through a cooperative partnership, the private sector has a 98 percent compliance rate.

The second reason is that the LCB does not adhere to the same standards it imposes upon the private sector. The LCB enforces the three-tier system upon the private sector but bypasses it to its own benefit. Pricing of wines is a dynamic business and changes constantly. To merely say that the LCB would price competitively would be an administrative and enforcement nightmare. We see only two ways to achieve price parity:

(a) the state should no longer sell beer or wine; or

(b) the state should purchase beer and wine through wholesalers and not directly from the manufacturer.

(4) Statement: Grocers accept payment or "slotting fees" from beer and wine companies for product placement

Fact: Accepting payment from an alcoholic beverage company is a felony. Leveling such an accusation at a retailer is very serious. If an individual has factual evidence that this is occurring, WFI encourages the individual to report it to appropriate authorities immediately. This is not an industry practice.

Again, I appreciate being given the opportunity to express to the task force our industry's position on this issue. As always, please contact me with any questions.

Notes and discussion on Washington Food Industry Letter

October 25, 2000

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Task Force discussion

Why aren't they now? If liquor stores only hold 10% of the market, why does this have merit?

The major point is not necessarily the amount of revenue for the state but the price. If the state chose to take over the retail sale of cigarettes to control access would they sell the cigarettes for less than the market place? I still do not get their selling strategy or purpose.

I think we are losing focus on what really matters, and that is Public Health and Safety. Control is the real issue. Certainly pricing could be addressed as an operational improvements suggestion.

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(2) Concern: Is the grocery industry capable of selling alcoholic beverages responsibly?

Response: Yes. In the past, the liquor control board has categorized their liquor compliance statistics by type of licensee (i.e. grocery store, convenience store, liquor store, restaurant, tavern, etc.). When WFI requested that information prior to the Task Force public hearings, we were told the agency does not categorize that information. However, past statistics indicated that the grocery industry had one of the highest compliance rates for alcohol sales. Perhaps the LCB should continue to categorize their compliance checks and provide that information to the Task Force.

Task Force discussion

Compared to what? Compared to other licensed industry, such as convenience stores restaurants and licensees. I do see that they seem to do a great deal of training and work toward prevention as a whole.

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(3)Question: If the state stores simply raised their prices, wouldn't that solve the problem?

Answer: No for two very good reasons. One, this state agency is not only our competitor but it is also our regulator. This two-headed function of the LCB establishes barriers to effective communication for enforcement from the start. Consider the fact that the same agency and primarily the same private sector group are involved in the sale and enforcement of tobacco products. However there are two major differences. First, the LCB does not sell tobacco products and compete unfairly with the private sector. Two, the sole focus of the LCB is enforcement and through a cooperative partnership, the private sector has a 98 percent compliance rate.

Task Force discussion

Should we cease to regulate alcohol sales? No, but maybe the state should focus on enforcement. All tobacco sales are done by the private industry, and as we heard from Vera Ing the State ranked an A on enforcement and compliance on cigarettes. In liquor we ranked a B. Maybe this is where the conflict in the mission statement comes in. I think this is what he is trying to say.

The second reason is that the LCB does not adhere to the same standards it imposes upon the private sector. The LCB enforces the three-tier system upon the private sector but bypasses it to its own benefit. Pricing of wines is a dynamic business and changes constantly. To merely say that the LCB would price competitively would be an administrative and enforcement nightmare. We see only two ways to achieve price parity:

(a) the state should no longer sell beer or wine; or

(b) the state should purchase beer and wine through wholesalers and not directly from the manufacturer.

Task Force discussion

Glad he mentioned the tobacco. Tobacco is out of control as far as sales to minors goes. Just drive by any high school or junior high when the final bell rings - enough said. The comment about the private sector having a 98 % compliance rate is strange. Who are they comparing themselves to? Someone is selling to all those kids you see smoking after school, and it obviously isn't the State.

I think it is safe to assume that while some retailers might sell to minors a 98% compliance rate is wonderful. I commend them on those rates. I would love to see that in liquor sales. My Chief of Police told me that the major problem they have with minors obtaining alcohol is with adults buying for the minors. I'm sure that if adults have no problem buying and furnishing liquor to minors, they would probably be just as likely to buy cigarettes for minors, or the kids could sneak them from their parents, or shoplift them. Also kids at high school would be likely to have 18 and 19 year old friends or older brothers or sisters who could purchase them. (Some kids in high school are 18 and 19!)

This entire "beer" thing is getting beyond silly. Liquor stores don't sell "beer". They sell malt liquor and ale, which is higher in alcohol content. The amount the State lists is nominal, so why is such a "big deal" being made over it? Seems kind of "nit picky" to me.

The state does sell Beer. Pyramid Heffeweizen, and Widmere Heffeweizen, and others are listed with the state. These are readily available in grocery stores state wide. They do not have higher alcohol content. The state has been increasing their SKU's of beer in the last couple of years. I agree that the amount is small, but what is the purpose of the state in the Beer business?

3. (b) could be addressed.....if the State purchased all their wines from Distributors or Brokers, this would give the latter a monopoly. What guarantee would we have that the prices would not go up, since they would then have total control?

Every winery in the state is a distributor. How could the distributors and brokers have a monopoly? Why is the state in the price downward control business? I thought with higher prices consumption decreased. In retail, the market drives the price. The states involvement in wine sales seems to create almost a state subsidy for wines and wineries. Is it ok to create an artificially low price to bring to consumers when we are in the control business?

More of that conflict with the mission statement. We have a wine promotion specialist that gets paid a state wage and benefits. I find that inconsistent with the mission statement, and with the LCB statement that wines are only a convenience to the customers. Why do we receive a monthly wine sales comparison that shows our wine dollar sales and wine bottle sales compared to the previous year and acknowledgement of a job well done when we sell more wine each month? Because the state is trying to grow their wine business. They seem to be actively trying to gain market share. (We do not receive the same information for liquor sales, why?) They actively promote ALL wines, not just Washington and encourage increased sales and displays. 10% of sales statewide does not sound like much to the State, but $32 million per year does sound like a lot in private business.

(4)**Statement:** Grocers accept payment or "slotting fees" from beer and wine companies for product placement

Fact: Accepting payment from an alcoholic beverage company is a felony. Leveling such an accusation at a retailer is very serious. If an individual has factual evidence that this is occurring, WFI encourages the individual to report it to appropriate authorities immediately. This is not an industry practice.

Task Force discussion

Fees" exist, but I do know shelf space is allocated by sales. If sales of an item are up, it gets space. As sales decrease, so does space.

Standard retail practices of stocking and displaying what sells/what a customer is looking for. If I have an item that sells well and is what a customer is looking for, it will get a prominent place in my store. I would not allot more space to an item that does not sell well.

Additional Task Force discussion

Here are some thoughts on the concerns raised in Doug Henken's memo on behalf of the Food Industry, and the various responses/comments from Task Force members.

Initially, it appeared that retailers were concerned about the retail prices charged by WSLCB for wines in state and agency stores, and that WSLCB could "level the playing field" simply by charging higher prices. However, it has become clear from retailers' testimony at the public hearings and particularly from Mr. Henken's memo that the issue for the food industry is **not** the **price charged** for wine by the WSLCB. Rather, it is the difference in the **cost of wine** paid by WSLCB and private retailers, and the WSLCB's profit margins on wine sales.

In order to understand this issue, it is necessary to know a little bit about how wine is ordinarily sold. Usually, a winery sells its wine to a distributor at the "distributor price". Generally, a distributor has the exclusive right to sell the wine to retailers within a specific geographical area. A winery may have a number of distributors within the State of Washington, each covering a different area.

The distributor marks up the wine, and resells it to the retail licensee at the "wholesale" price. The distributor warehouses the wine, delivers the wine to the retailer, breaks up cases and deliver partial cases if the retailer orders fewer than 12 bottles, stocks the shelves with the wine, keeps the bottles dusted, helps the retailer reset the shelves, posts point of sale materials, etc. The retailer then marks the wine up again and sells it to the consumer.

The WSLCB is able to buy wine for less than retailers like Safeway or Tidyman's because the WSLCB buys the wine as a distributor and can therefore buy at lower "distributor" prices instead of higher "wholesale" prices. The WSLCB itself then performs all of the functions that a distributor would ordinarily perform. WSLCB warehouses the product, delivers it to the state stores, stocks the shelves, etc. WSLCB also functions as a retailer: it sells the wine to consumers. Under existing state law, WSLCB is the only entity which is allowed to function both as a distributor and a retailer for different brands of wine.

Retailers are not distributors and, under existing state liquor laws, cannot be distributors. While retailers can buy wine directly from wineries, they seldom do, presumably because it is more efficient and convenient for them to buy from distributors who provide valuable services to the retailer that most wineries are unable to provide (frequent deliveries, stocking of shelves, etc)

The way this works may be clearer with an example. Let's assume that a distributor buys a bottle of wine from a winery for $5.00. The distributor then marks up the bottle by 30% (or $1.50) and sells it to a retailer for $6.50. His profit margin is 23% ($1.50/$6.50). The retailer marks it up again by 30% (or $1.95) and sells it to the consumer for $8.45. The cost to the retailer for that bottle is $6.50. When the retailer sells it to the consumer for $8.45, his profit is $1.95 and his profit margin is 23% ($1.95/$8.45).

As a distributor, WSLCB buys that same bottle of wine for $5.00, the same price paid by the private distributor. WSLCB warehouses the wine, delivers it to the state store, marks it up by 45%[1] (or $2.25) and sells it to the consumer for $7.25. WSCLB's profit on that bottle is $2.25, a margin of 31% ($2.25/$7.25)

Retailers are troubled by WSLCB's costs and profit margins on sales of wine. What is sometimes lost in the heat of this discussion is the fact that WSLCB's profit margin is earned in its dual capacity as distributor and retailer. In the private sale, the private distributor earns $1.50, and the private retailer earns $1.95, for a total of $3.45 and a total profit margin of 41% ($3.45/$8.45). So the total profit margin in the private sale is actually greater than the WSLCB margin, but it is shared by two private entities, the distributor and the retailer. WSLCB, on the other hand, functions as both distributor and retailer, and it retains all profits on the sale of wine.

Mr. Henken states in his memo: ***"If the state stores simply raised their prices, wouldn't that solve the problem? No...."*** The WSLCB's costs and profit margins seem to be the real heart of the food industry's concern. Presumably, this is why Mr. Henken says in his memo that simply raising the prices charged by WSLCB for wine will not solve the problem. (In fact, it would exacerbate the retailers' problem: if WSLCB charges more for the wine, its profit margins will be even better.) And presumably, that is also why he says the only solution is either (a) WSLCB stops selling wine altogether, or (b) WSLCB buys wine from third party distributors only and not from the wineries.

If WSLCB were required to buy wine from third party distributors, it would then have to pay the same price as private retailers which, in the example, would be $6.50 and would include $1.50 for the distributor and the distributor's services, even though the WSLCB acts as its own distributor and has little need for the services typically provided by distributors. This would also raise wine prices to consumers in WSLCB stores without contributing additional monies to the

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[1] The "average" WSLCB markup on wines appears to be approximately 45%, based on the information contained in the chart prepared by WSLCB entitled, "100 Top Selling Wines by Case Volume"

General Fund.

Regarding Mr. Henken's two proposed solutions, we have heard from wineries why they would not like to lose the WSLCB as a customer and a distribution outlet. The suggestion that the WSLCB be required to buy all wine from third party distributors raises some of the same problems for wineries. Currently, if a winery is not able to find a distributor to handle its wines, it is at least able to sell wine directly to the WSLCB. If the law were changed to require the WSLCB to buy wine only from third party distributors, then a winery with no distributor would be unable to sell its wine even to the WSLCB.

Both large and small wineries distribute their wines through WSLCB, as is clear from the chart prepared by WSLCB, "100 Top Selling Wines by Case Volume." All of the Washington wineries whose wines appear on this Top 100 list also use private distributors to get their wines to consumers in Washington. As long as WSLCB continues in the wine business, there will be two different ways for wineries to get wines into the marketplace.

This is not a problem with an easy answer. It is true that our state legislature has created different rules for WSLCB than for private retailers. Some are advantageous to the state and its taxpayers, and some are not. On the one hand, WSLCB is the only entity that is allowed by state law to function both as a distributor (wholesaler) and a retailer of many different kinds of wines. And this allows WSLCB to capture both the distributor and the retailer markup on wine sales, which benefits all the citizens of the state. On the other hand, the WSLCB operates at a disadvantage vis-à-vis private retailers in that it does not advertise wine; it sells no other products to attract customers into its stores and contribute to the profit picture; and its stores have shorter business hours than most private retailers do. And all of these things may contribute to the WSLCB's small share (10%) of the wine market in the state of Washington.

September 14, 2000

Ms. Bernie Dochnahl
Chair
Retail Liquor Sales Task Force

Dear Ms. Dochnahl:

I'm writing as the National Sales Manager for Hyatt Vineyards of Zillah, Washington. We're a family-owned winery ranking about twelfth in terms of production among Washington wineries and have been established for seventeen years. My own experience in this state comprises over twenty years of working retail wine shops, the restaurant division of G. Raden & Sons, six years running both Paul Thomas and Columbia wineries in the mid-eighties, and the last twelve years as a broker for various Washington and California brands in the Northwest. I was also twice past-President of the Washington Wine Institute and instrumental during my second term in establishing the Washington Wine Commission. I give you this background not only to show that I have some familiarity with the way wine is sold in our State, but because I am adamantly opposed to taking wine sales out of the State Liquor Store system.

Practically speaking, Hyatt sells over 5,000 cases of its wines to the State, while our Washington distributors account for around 10,000 cases presently. It would be the most mistaken of assumptions to conclude that the Liquor Stores' portion would easily be taken up by wholesalers and commercial retailers!

What would really happen is that the larger and very large wineries would command even more shelf and restaurant space and I would see sales drop by over half of that 5,000 case figure. There is simply NO way my wholesalers can take up that slack. This obviously imperils a struggling and very capital-intensive agricultural business with over thirty-five inputs into the economy of our State.

Further, despite complaints by commercial retailers, I am firmly convinced that the Liquor Store customer is nearly entirely separate from the consumers who buy wine at commercial outlets and that rather than see Liquor Store customers transfer the volume of their purchases to commercial licensees, we would instead see a decline in wine sales period. This is especially true given the backpedaling most major grocery chains have been doing for the last fifteen years over any reasonable commitment to wine as an very significant and growing portion of their gross. Washington wineries will suffer.

The State Stores also fulfill a valuable function as a price-worthy alternative to the consumer and abandoning them would only serve to make wine less competitively priced in this market. There's a reason that value still attracts many shoppers, and the State Stores offer that value with their unique pricing.

I've been in the wine business since 1976 and have seen many attempts to privatize the sale of wine and spirits. Usually there is a lack of consensus among the five primary players:

retailers, restaurateurs, unions, churches, and wineries that has prevented successful attempts at privatization. I have also come to appreciate that wine is NOT the issue — SPIRITS is the issue, has always been the issue, and will continue to be the issue. Taking aim at wine is only a feint aimed at weakening the State system sufficiently to eventually get it out of spirits as well, where the REAL profits are to be had.

Under the guise of attacking restraints on free trade, corporate lobbyists who are paid far more than I am have as their sole agenda the liberation of spirits from the State system so that multi-state and national spirits corporations can profitably enter Washington State and export their profits outside our borders.

Of course, I have a vested interest in having two major purchasers of Hyatt's wines, the State and the commercial distributors. I sell more wine this way, the Hyatt family can increase its production, employ more Washington residents and spend their money in our State. I would be pleased to attend any upcoming Hearings on this matter, and would be obliged if you could inform me of these at the address on this letterhead. Thank you very much for considering my opinions.

Sincerely,

David Adair
National Sales Manager
Hyatt Vineyards

Spokane Dailey Planet November 2000

Wineries dealt sour grapes

by Danyelle Robinson

Finding your favorite local wine isn't always easy, and it may get even more difficult. As with many small businesses, the success of local wineries is tied to distribution. In the wine industry, this issue is compounded by a lack of uniform rules and regulations relevant to the sale of controlled substances nationwide and often within the same state.

You can walk into your local Costco and buy a pallet of your favorite wine, if it's available. But Washington residents purchasing wine on the Internet, over the phone or in tasting rooms are restricted to two cases per year.

Okay, so maybe an annual limit of 24 bottles of wine for personal consumption is plenty for one person. But the reality is that wine lovers often buy larger quantities for dinner parties, holidays or private collections.

I know what you're thinking. All the great wines come from France, Italy and California, so who cares. Right? Wrong. Washington has achieved international acclaim for its wines, as well as its market growth.

During the past few years, Washington wines have won far more awards and competitions proportionate to production than any other wine regions worldwide, said the Washington Association of Wine Grape Growers. And Wine Spectator, an international industry magazine, cited Washington's largest winemaker, Columbia Crest, in Paterson, Wash., as the best value wine in America.

"What makes our apples great is the same thing that makes Washington wine grapes great," said Steve Burns, executive director of the Washington Wine Commission. The secret? Simple. "Hang time." With an additional two hours of summer sun, Washington growers have the luxury of allowing fruit to ripen on the vine.

Any business owner will tell you that it doesn't matter how great the product is if you can't get it to the market. Perhaps furthering this issue are the recent discussions regarding the privatization of state liquor stores in Washington State. A recent local meeting of the Governor's Retail Liquor Sales Task Force concerning privatization met with concerns regarding consumption, minors in possession, and whether beer and wine should be available in state liquor stores. The task force is expected to make its recommendation to the governor on Dec. 1. Nearly 140 of the 158 wineries that operate in Washington State are bracing for the impacts.

For Washington's 20 largest wineries the impact is minimal. These wineries enjoy wide distribution in retail stores, said Mike Conway, owner and winemaker of Latah Creek, of Spokane. But state liquor stores, the Internet and winery tasting rooms are the primary outlets for Washington's small wineries. State liquor stores currently carry a wide variety of

Washington wines, special orders are readily accepted and September features Washington wine month.

Rebecca Chateaubriand, owner of Wordens Inc., in Spokane, estimates that only one dozen local wineries are represented in retail stores. Carrying product from small wineries is simply not cost effective for larger distributors.

The state's question of whether to continue liquor store sales of wine comes on the heels of nationwide limits of direct sales. Direct sales are "the life blood to a lot of the smaller wineries," said Conway.

While 12 states offer reciprocal agreements for the direct shipment of wine, 10 others require permits, and the other 28 states prohibit any direct wine sales.

"The sacred cow of this is that each state is allowed to create its own laws," said Burns. The 21st amendment allows individual states to regulate transportation and delivery of intoxicating beverages. All states require proof of identification in delivery of the product and prohibit shipment delivery to intoxicated individuals.

As of October 2000, lawsuits in six states are asserting that direct shipping bans violate consumer rights as granted in the Commerce Clause of the Constitution. Recent court opinions in Texas and Indiana have sided with the consumer. However, Indiana's court of appeals has remanded the case back to the lower court with an order to reverse the previous ruling that declared the state's direct shipping law was unconstitutional, in part because wineries were not represented in the suit.

Outside of distribution and free trade is perhaps the most crucial issue related to direct sales - taxation. State revenue losses from direct Internet sales of all products are significant and the additional excise tax on liquor increases that loss.

"I think it's legitimate," said Chateaubriand. "It should apply to all purchases on the Internet." She noted that state taxes do apply to tasting room purchases.
As for personal transportation of out-of-state liquor purchases, enforcement is limited. Individuals are expected to stop at the state line, declare the purchase and pay any obligatory fees associated. It's a lot like international customs laws; only it may be easier to get a case of wine into Tokyo than New Hampshire.

Washington State Liquor Control Board
Liquor Sales Data
Fiscal Year 1999

1999 Liquor Sales	Spirits	Wine	Malt Beverages	Alcohol	Total
Gross Sales	$412,281,042	$32,986,369	$1,140,897	$537,188	$446,945,496
Less:					
Discounts and exempt tax	26,211,414	1,005,518	683	0	27,217,614
Spirit Taxes	113,365,661	0	0	0	113,365,661
Wine Taxes	0	1,625,566	0	0	1,625,566
State and Local	0	2,385,178	87,536	8,546	2,481,259
Board Surcharges	3,912,206	0	0	0	3,912,206
Total discounts and taxes	143,489,281	5,016,262	88,218	8,546	148,602,307
=Net Sales	$268,791,761	$27,970,108	$1,052,678	$528,642	$298,343,189
Less:					
10% of Net Sales to Class H..	6,792,355	0	0	0	6,792,355
=Net Sales after "10% of Net"	261,999,405	27,970,108	1,052,678	528,642	291,550,834
Less:					
Cost of Goods Sold	190,972,102	21,526,649	700,174	70,082	213,269,006
=Gross Profit from Liquor Sales	$71,027,304	$6,443,459	$352,505	$458,560	$78,281,827

Cost of Goods Sold

Month	Spirits	Wine	Malt Beverages	Alcohol	Total
Jul-98	$16,264,594	$1,711,117	$66,471	$7,324	$18,049,505
Aug-98	15,273,978	1,760,688	64,792	5,992	17,105,449
Sep-98	14,874,103	1,747,917	57,873	5,502	16,685,395
Oct-98	16,376,018	1,802,192	67,753	4,970	18,250,933
Nov-98	15,814,511	1,824,356	53,085	5,241	17,697,194
Dec-98	24,572,698	2,754,549	60,936	5,630	27,393,813
Jan-99	13,287,677	1,473,846	50,787	4,852	14,817,163
Feb-99	13,210,312	1,476,264	51,535	5,987	14,744,099
Mar-99	15,037,265	1,689,976	56,819	6,647	16,790,707
Apr-99	15,122,129	1,716,886	58,123	5,532	16,902,670
May-99	15,471,546	1,733,383	56,760	5,592	17,267,281
Jun-99	15,667,272	1,835,475	55,238	6,813	17,564,798
Totals	$190,972,102	$21,526,649	$700,174	$70,082	$213,269,006

SUMMARY OF "Excess funds" REVENUES:

Retail Revenues:		
Spirit profits	$71,027,304	76.46%
Wine Profits	6,443,459	6.94%
Malt Profits	352,505	0.38%
Alcohol Profits	458,560	0.49%
Sub-total	78,281,827	84.27%
Other Revenues		
$0.20/liter of wine tax	11,840,134	12.75%
80% of remaining license fees	1,566,040	1.69%
Other license fees	717,095	0.77%
Lottery ticket profits	164,075	0.18%
Beer Penalties	32,057	0.03%
Wine Penalties	12,993	0.01%
Misc. Income	285,050	0.31%
Sub-total	14,617,444	15.73%
Total "Excess Fund" Revenues	$92,899,271	100.00%
Less:		
Operating Expenses	61,657,844	
$500,000 Reserve Amount	500,000	
="Excess Funds"	$30,741,427	

Retail Task Force

100 Top Selling Wines by Case Volume
(average monthly case sales)

	Brand Code	Description	Liter Size	Monthly Avg Case Sales	upc number	Sdt. Unit cost	m/u incl. surchgs	$ m/u	% tax	$ tax	Retail Price
65	558800	CVY RN CHRD	0.75	165	8735710035	$ 7.11	38%	$ 2.71	.2292/ ltr	$ 0.17	$ 9.99
66	541235	ALMAD MTN RHN	1.50	161	8012050803	$ 2.98	49%	$ 1.47	.2292/ ltr	$ 0.34	$ 4.78
67	745620	DOM ST MICH BRT	0.75	161	8858660024	$ 6.21	38%	$ 2.39	.2292/ ltr	$ 0.17	$ 8.77
68	545500	B GRIFFIN CHRD	0.75	157	9692500001	$ 6.35	38%	$ 2.43	.2292/ ltr	$ 0.17	$ 8.95
69	469248	GALO LC BUR	1.50	156	8500000602	$ 2.98	49%	$ 1.47	.2292/ ltr	$ 0.34	$ 4.79
70	355052	CASARSA CAB S	1.50	154	8739600045	$ 3.87	46%	$ 1.78	.2292/ ltr	$ 0.34	$ 5.99
71	495175	PETER V BUR	5.00	154	8500000123	$ 5.57	46%	$ 2.57	.2292/ ltr	$ 1.15	$ 9.29
72	469815	GALO NC HRTY BUR	1.50	153	8500000792	$ 3.87	46%	$ 1.78	.2292/ ltr	$ 0.34	$ 5.99
73	92486	HAKUT SAKE	1.80	152	1208683703	$ 6.80	41%	$ 2.80	.4536/ ltr	$ 0.82	$ 10.42
74	95236	GALO CRM SHR	1.50	152	8500000543	$ 3.97	59%	$ 2.34	.4536/ ltr	$ 0.68	$ 6.99
75	656932	GALO WH ZIN	1.50	151	8500000784	$ 3.87	46%	$ 1.78	.2292/ ltr	$ 0.34	$ 5.99
76	483120	MANISH KOSH GRP	1.50	149	8597603415	$ 3.87	46%	$ 1.78	.2292/ ltr	$ 0.34	$ 5.99
77	594170	P MAS RHCSTL	3.00	149	8700060580	$ 4.41	49%	$ 2.18	.2292/ ltr	$ 0.69	$ 7.28
78	95256	GALO LVG CRM SHR	1.50	148	8500000550	$ 4.81	58%	$ 2.80	.4536/ ltr	$ 0.68	$ 8.29
79	889013	MARGARITA MSTR MX	1.00	148	7049102106	$ 2.63	43%	$ 1.13	.2292/ ltr	$ 0.23	$ 3.99
80	557085	COL CR SEM-CHRD	0.75	144	8858640489	$ 3.80	41%	$ 1.54	.2292/ ltr	$ 0.17	$ 5.51
81	646105	C ROSSI BLS	4.00	144	8500000216	$ 4.92	48%	$ 2.35	.2292/ ltr	$ 0.92	$ 8.19
82	900705	WA HILLS LH WH RS	0.75	144	8043819294	$ 4.12	40%	$ 1.65	.2292/ ltr	$ 0.17	$ 5.94
83	889003	BL MARY MSTR MX	1.00	143	7049102896	$ 2.63	43%	$ 1.13	.2292/ ltr	$ 0.23	$ 3.99
84	506408	SBST HRTG MER	1.50	141	8823200104	$ 6.73	43%	$ 2.91	.2292/ ltr	$ 0.34	$ 9.98
85	656378	GALO LC BLS CHAB	3.00	139	8500000490	$ 4.57	49%	$ 2.24	.2292/ ltr	$ 0.69	$ 7.50
86	449660	C ROSSI PAIS	1.50	138	8500000722	$ 2.61	51%	$ 1.34	.2292/ ltr	$ 0.34	$ 4.29
87	768950	BALLATORE SPUM	0.75	138	8500000757	$ 3.78	41%	$ 1.54	.2292/ ltr	$ 0.17	$ 5.49
88	356530	CELLA LMBRSC	1.50	136	8832031002	$ 5.35	43%	$ 2.30	.2292/ ltr	$ 0.34	$ 7.99
89	640755	ALMAD BLS CHAB	3.00	135	8012050447	$ 4.20	50%	$ 2.10	.2292/ ltr	$ 0.69	$ 6.99
90	59067	CUERVO STRB M MIX	1.00	132	8200016609	$ 3.00	42%	$ 1.26	.2292/ ltr	$ 0.23	$ 4.49
91	98744	M & R SW VRM	0.75	132	1103441005	$ 4.03	40%	$ 1.62	.4536/ ltr	$ 0.34	$ 5.99
92	94686	GALO ST SHR	1.50	127	8500000539	$ 3.97	59%	$ 2.34	.4536/ ltr	$ 0.68	$ 6.99
93	568810	GALO CHRD 4/PK	0.75	126	8500000533	$ 3.20	48%	$ 1.55	.2292/ ltr	$ 0.17	$ 4.92
94	578670	COL RHNSK BX	5.00	125	7749009719	$ 5.09	47%	$ 2.41	.2292/ ltr	$ 1.15	$ 8.65
95	900437	HGU FUME BLC	0.75	125	8775400030	$ 4.68	40%	$ 1.85	.2292/ ltr	$ 0.17	$ 6.70
96	673635	P MAS ROSE	3.00	124	2129660510	$ 4.41	49%	$ 2.18	.2292/ ltr	$ 0.69	$ 7.28
97	417607	MARCUS J CAB S	1.50	123	8210010960	$ 3.87	46%	$ 1.78	.2292/ ltr	$ 0.34	$ 5.99
98	541940	ALMAD MTN CHAB	1.50	123	8012000004	$ 2.98	49%	$ 1.46	.2292/ ltr	$ 0.34	$ 4.78
99	459310	CRIB CHIAN	4.00	121	8380400503	$ 6.25	45%	$ 2.82	.2292/ ltr	$ 0.92	$ 9.99
100	647275	C ROSSI ROSE	4.00	121	8500000735	$ 4.92	48%	$ 2.35	.2292/ ltr	$ 0.92	$ 8.19

□

Wine100 dta
gt 8/03/00

WHERE YOUR WINE DOLLARS GO ...

PRICE ANALYSIS EXAMPLE

750 ML OF WINE UNDER 14% ALCOHOL

STATE TAX

$0.17

(.2292 PER LITER)

DISTRIBUTION:

.2000 LIQUOR REVOLVING FUND
.0025 WSU
.0142 GENERAL FUND
.0025 WA WINE COMMISSION
.0100 VIOLENCE REDUCTION

MARK UP

$1.92

DISTRIBUTION:

- $ .21 Warehouse Debt Service
- .30% Border Areas
- 49.99% State General Fund
- 39.99% Cities
- 9.99% Counties

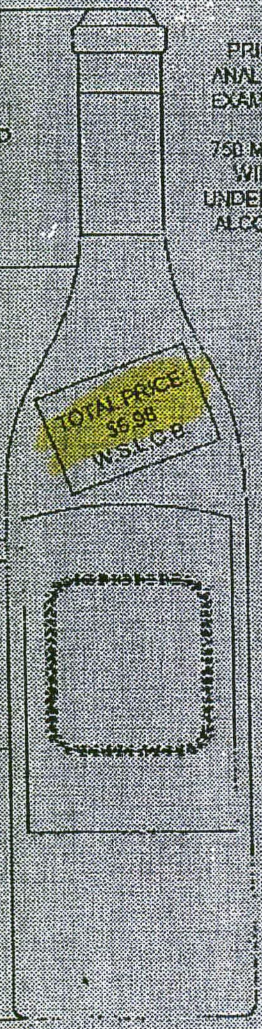
FREIGHT COST $ .10

FEDERAL TAX

$ .21

WINERY PRICE

$4.58



WASHINGTON STATE LIQUOR CONTROL BOARD

5.CC

WHOLESALE DISTRIBUTOR WINE PRICING

MARK UP

$3.63

DISTRIBUTION:

- Retail Markup (33%) = $2.14
- Distributor Markup (30%) = $1.49

TAXES

$1.11

DISTRIBUTION:

- Federal Tax ($0.28 per liter) = $0.21
- State Wine Tax ($0.23 per liter) = $0.17
- B & O/Liter Tax (.0049%) = $0.032
- State Sales Tax (8.2%) = $0.70

FOB WINERY PER BOTTLE

$4.58

PRICE ANALYSIS EXAMPLE:

750 ML OF WINE UNDER 14% ALCOHOL

LCB-01000875